

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Southfield, Michigan

Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2006

**Fiscal Services Division
Accounting Department**

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City of Southfield

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January 4, 2008

Honorable Mayor and Council
Municipal Building
Southfield, Michigan

RE: 2005-06 COMPREHENSIVE ANNUAL FINANCIAL REPORT LETTER OF TRANSMITTAL

Dear Sirs and Mesdames:

The Comprehensive Annual Financial Report of the City of Southfield, Michigan, for the fiscal year ended June 30, 2006, is submitted herewith, in accordance with provisions of the Southfield City Charter and the laws of the State of Michigan. This report, prepared by the City's Fiscal Services staff, represents the official report of the City's financial operations and condition to the City's residents, elected officials, investment firms, rating agencies and other interested parties. It is in conformance with the requirements of GASB 34, which represent the most sweeping changes in the 20-year history of the Governmental Accounting Standards Board. Responsibility for the accuracy, completeness and fairness of the financial data herein, including all disclosures, rests with the City. The annual audit of the City of Southfield financial statements was conducted by the independent accounting firm of Plante & Moran, PLLC.

This report also includes a separate section on Component Units, as required by Statement Number 14 of the Government Accounting Standards Board (GASB), (see pages 56-57 and 150-153). Component units are included because of the significance of their operational or financial relationships with the City. The component unit columns in the combined financial statements include the financial data of the City's six component units. These units are reported in a separate column to emphasize that they are legally separate from the City. They include the Local Development Finance Authority, the Tax Increment Finance Authority, the Economic Development Corporation, Downtown Development Authority, Brownfield Redevelopment Authority and the Non-Profit Housing Authority. Descriptions of each component unit appear in Note "1. A." on pages 61 - 62 of this report.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The introductory section, which is un-audited, includes this letter of transmittal, an organizational chart and a list of the City of Southfield's principal elected and appointed officials. The financial section, which is audited, includes the Management Discussion and Analysis, basic financial statements and the combining and individual fund statements and schedules. The statistical section, which is un-audited, includes selected financial and demographic information, generally presented on a multi-year basis.

The enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and the results of operations of various funds of the City. This letter should be read in conjunction with the Management's Discussion and Analysis. Included are disclosures necessary to enable the reader to gain an understanding of the City's financial activities.

Mayor
Brenda L. Lawrence

Council President
Sylvia Jordan

City Clerk
Nancy L. M. Banks

City Treasurer
Irv M. Lowenberg

City Council
Donald F. Fracassi Myron A. Frasier Sidney Lantz William Lattimore Joan Seymour Kenson J. Siver

City of Southfield

Letter of Transmittal

The City of Southfield is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's Circular A-133, *Audits of State and Local Governments*. The single audit report includes independent auditor review and comments on internal controls, legal/regulatory compliance, and any findings of questioned costs.

SOUTHFIELD – Municipal Overview

The City of Southfield has continued to experience substantial growth and progress since its incorporation on April 28, 1958. Southfield offers the best of Michigan and the Midwest - an international center of business and commerce close to quaint, tree-lined neighborhoods.

Located in the heart of southeastern Michigan, with easy access to most major Detroit-area expressways, *Southfield – The Center of It All™*, offers both a cosmopolitan, culturally diverse residential population of more than 78,000 residents and a thriving international business center. Situated in Oakland County, Southfield offers a complete living community, featuring a nationally recognized public school system, 10 colleges and universities, and more than 700 acres of park land. With a daytime population nearing 175,000 and over 26 million square feet of office space, Southfield is truly Michigan's undisputed business center. Residents and businesses alike come to Southfield for its central location and easy access to all of southeastern Michigan.

In addition to the City's extensive business community, Southfield is also a model of multiculturalism. Its residential and business populations reflect the world's diversity. Southfield residents celebrate the rich tapestry of cultural, religious and racial heritage in the community. Southfield provides excellent quality of life; preeminent City services; central location; and diverse and affordable housing, with neighborhoods ranging from urban town homes to pastoral country sides.

Southfield's business community dates back to the mid 1950s. Corporations seeking spacious suburban offices were attracted to Southfield, and within a half-decade, dozens of high-profile firms called Southfield home. Growth was spurred by the nation's first regional shopping center, Northland Center, which opened in Southfield in 1954; yet today, it remains a major retail center. City leaders showed considerable foresight over the years in creating a high-visibility business community along major roadways, with neighborhoods strategically tucked into adjacent acreage and subdivisions.

Southfield is operated under a Council/Administrator form of government. The seven-member City Council is elected at two-year intervals on a non-partisan ballot; the three highest vote-getters receive four-year terms and the fourth serves a two-year term. The Council President, who presides over meetings, is elected by Council colleagues. Special Council committees review and make policy recommendations on finance, zoning, transportation, state legislation, appointments and other key issues.

The Mayor, elected to a four-year term on a non-partisan ballot, has veto power over Council actions but does not vote on legislative matters. A two-thirds Council majority vote is needed to override a Mayoral veto. The Mayor also appoints the City Attorney, City Assessor, City Planner and Emergency Management Director, with appointment confirmation by City Council.

Also elected to four-year terms, the City Clerk and City Treasurer serve in full-time capacities. The City Administrator, appointed by and reporting directly to City Council, serves as chief administrative officer and oversees daily operations and policy implementation.

City of Southfield

Letter of Transmittal

The City's elected and administrative officials hold memberships in a wide range of professional organizations, including the National League of Cities, Michigan Municipal League, International City/County Management Association, Municipal Clerks Association, Municipal Treasurers Association and Government Finance Officers Association. Management also holds leadership positions or participates in numerous professional organizations, including the International Building Owners and Code Administrators, National Associations of Telecommunication Officers and Advisors, Public Relations Society of America, City-County Communications & Marketing Association and the International Association of Assessing Officers.

Southfield is served by many long-tenured elected officials and administrative staff. A new Mayor was elected for the first time in 29 years in 2001; the City Treasurer retired in 2005 after 35 years of service with the City; and the Director of Public Works also retired in 2005 after more than 33 years of service to the community. Council members average more than 10 years of service.

The City's Exempt Service Staff consists of management group employees selected by authorized elected or appointed officials. These positions are executive level, in general, and not part of the civil service system. The Mayor and Council utilize the annual budget process to review salary ranges for exempt personnel. Other City employment classifications are reviewed either through collective bargaining or the Civil Service Commission.

Attracting and retaining highly qualified management personnel is among the City's ongoing objectives. The average tenure of the City's management groups is more than 20 years, providing notable stability and leadership for City operations. Within the group, 22 have BA or BS degrees and 18 have MA, MS, MPA, MBA, MUP or JD degrees. Many others have achieved professional certification in their respective fields (professional engineer, etc.). In addition, many have earned special recognition through election to state or national association offices, as instructors for professional seminars, or as guest lecturers at universities.

Now celebrating its 48th year as an incorporated city, Southfield has matured into one of Michigan's most dynamic communities. As a result of its position as Michigan's office and high-tech capital, Southfield's 26 million square feet of office/commercial space is home to approximately 9000 businesses, including more than 80 "Fortune 500" companies and 350-plus high-tech firms – more than any other Michigan city. Southfield also boasts more than seven million square feet of retail and industrial/high-tech space. With more office space than the central business districts of Cleveland, Cincinnati, Detroit, Indianapolis or Kansas City, Southfield is clearly recognized as a regional business hub.

Residents have 89 homeowners groups and 39 condominium associations representing their interests. The community offers over 18,000 single-family homes and more than 19,000 multi-family apartments and townhouses. Within Southfield's 26.7 square miles, residential zoning comprises 64% of land use, yet 57% of the community's tax revenues are generated from business properties. Though considered nearly fully developed, Southfield continues to both grow and redevelop to meet the community's ever-changing needs. In 2005, the Southfield Building Department issued 1143 building permits, valued at \$70.7 million; and 594 permits, valued at \$44.3 million in the first six months of 2006.

With 15% of the metro area's speculative office space, Southfield remains the largest submarket in metro Detroit. Intersected by I-696, US 10, US 24, M-39, M-10 and many other major highways, Southfield is centrally located for convenient access to businesses, their customers and suppliers. Its central location also places it 20 minutes away from Detroit Metropolitan Airport and downtown Detroit, as well as most

City of Southfield

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other metro-area communities. As home to 25% of all Oakland County's businesses, 25% of its international firms and 50% of its Japanese firms, Southfield is also an important international business community.

The City of Southfield is the original home of the Automation Alley SmartZone™, the Great Lakes Interchange, one of the first State-designated high-tech and information technology clusters. The Michigan Legislature and Michigan Economic Development Corporation developed the concept of SmartZones in an effort to promote high technology business development and job creation in the region. The Great Lakes Interchange provides a centrally located site where technology-based firms, entrepreneurs and researchers can work in close proximity to a wealth of other community assets. With a cluster of companies that are established on both a national and global scale, the Great Lakes Interchange region is ranked third in the nation for the number of technology companies and fourth in total employment in high-tech industries. Oakland County, Rochester Hills, Troy, Lawrence Technological University, Oakland University, and Automation Alley are all partners in the Great Lakes Interchange SmartZone. Our SmartZone has contributed in building Michigan's reputation as one of the nation's leading technology states.

More than 350 high-technology, information-technology, and telecommunications firms have a corporate presence in Southfield. An impressive 98% of the City is accessible to high-speed fiber optics, broadband and satellite services, and several backbones traverse the community. Major telecommunications firms appreciate Southfield's extensive infrastructure, access to a footprint of citywide fiber optics and central location. More than 40 telecommunications firms are represented in Southfield, including AT&T, Verizon, Sprint, Comcast, LDMI, Level 3 Communications, and MCI. More than 90 software development companies also have a presence in Southfield, including the industry's largest: IBM, Microsoft, UGS Corp., Sun Microsystems, Cisco Systems, and many others.

Other key high-tech industries represented in Southfield include major electronic media and satellite facilities such as Hughes Satellite, national affiliates ABC, CBS, FOX, The CW Television Network (formerly WB Network) and Infinity Broadcasting, parent company of five metro-area radio stations. Healthcare and life science-based businesses also abound in Southfield, including Blue Cross/Blue Shield of Michigan, Blue Care Network, St. John's Providence Hospital, Housey Pharmaceuticals, Lumigen and several others.

Some of the world's leading research and development firms also are based in Southfield, including Lear Corporation (world headquarters), Denso International (North American headquarters), BASF, GE, Honda Research and Development America, Eaton Corporation, Sverdrup Technologies, Panasonic Automotive Electronics, Autoliv Electronics - North America and many others.

Lear Corporation has called Southfield home since 1967. Since that time, the company has grown to be one of the largest automotive interior suppliers in the world. Lear recently completed a \$70.8 million expansion of their world headquarters campus. The expansion brought approximately 200 new jobs to Southfield as well as the improved overall appearance of the area. Lear purchased seven businesses near their headquarters along Telegraph between Eight and Nine Mile Roads to enable the expansion project that included construction of a new 106,000-square-foot, three-story world corporate headquarters building. Construction began in the fall of 2004 and was completed in the first quarter of 2006. The company also invested in major landscaping improvements along with an additional 1,400 parking spaces to better reflect its status as one of the world's leading suppliers of automotive interiors.

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Despite a soft economy, Southfield continues to attract new development. Verizon Wireless completed a \$30 million investment in a Mobile Telephone Switching Office (MTSO). This 21,312-square-foot space is equipped to handle network activity for a geographic territory of more than 500 square-miles and a population of more than 1.5 million people. The MTSO ensures that Verizon will have the capacity to accommodate their customer's needs in the event of an emergency or natural disaster.

Evergreen Atrium, a new 6,700-square-foot retail building housing three restaurants, is slated to open in the fall of 2006. The building is located in the heart of the "City Centre" on the west side of Evergreen Road just south of I-696. The new restaurants "Chipotle," Mexican restaurant, "Pot Belly," gourmet sandwiches, and "Beaners," coffee shop will provide Southfield residents and business people alike with even more dining options in this busy part of the City.

A new 126,000-square-foot Target store is being constructed on Southfield Road between 12 & 13 Mile Roads on 11 acres at the former CMI Health Club site. The new Target will not only add another convenient new retailer to Southfield, but also more than 200 new jobs. The store will join several other exciting new projects in the area, including the \$60 million new housing development across the street. Best Buy will be moving to the vacant Media Play site in the Tel-Twelve Shopping Center with plans for a new \$4 million, 44,620-square-foot store. Also at Tel-Twelve, Pet Smart is refurbishing the former Circuit City store to the tune \$1.4 million, joining the new Meijer concept store and other tenants to revitalize this important shopping center.

Southfield Gateway, L.L.C. is constructing a 93,312-square-foot, one-story office and warehouse facility for Corporate Express, an office furniture company, on the former Southfield Driving Range property located between Northwestern Highway and Southfield Road.

The Southfield Town Center is in the middle of an extensive multi-million dollar renovation and improvement of town center buildings and parking structures. The initiative will include new parking structure entrances for all towers; renovation of the common areas of the 1000, 2000, 3000 and 4000 towers; and new signage for the new parking structures and retail tenants.

The City of Southfield was certified as one of several cities for the Michigan Suburban Alliance's "Redevelopment Ready" pilot program. The Redevelopment Ready Communities (RRC) project is the result of an innovative new certification process designed by developers and public officials to measure municipal preparedness for in-fill investment. The goal of the RRC project is to change market perceptions of older communities by streamlining local government administrative processes and removing redevelopment barriers through a certification system that encourages redevelopment.

Southfield is among a select group of cities to achieve certification after meeting an extensive set of criteria. An independent third party reviewed community processes and certified that Southfield's planning and economic development operations meet the benchmark. This system for certifying communities as "redevelopment ready" benefits both older communities and developers by creating a more efficient and predictable redevelopment process.

The Partnership for Redevelopment, a collaboration with the Michigan Economic Development Corporation and the Michigan State Housing Development Authority, is designed to enhance the RRC project and help communities realize new investment. A few examples of the RRC project requirements include communicating information throughout the community on the need for redevelopment and its benefits in addition to demonstrating the community's commitment and ability to work with investors.

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In order for the City of Southfield to maintain its position as a leading business center in southeast Michigan, the City is shaping its future for the 21st Century with the development of a new Comprehensive Master Plan. Once completed, the Plan will provide an excellent opportunity to further advance the City as a “best practices” first-tier community success story in the region.

As a first-tier community, neither fully urban nor completely suburban, Southfield needs a plan that will blend the old with the new. A public participation program will incorporate ideas from those who know Southfield best—the residents and business community. Each step of the planning process will involve communication between the City, residents, business owners and community stakeholders. When completed, the City of Southfield’s Comprehensive Master Plan will state policies and recommendations for the physical development of the City. The Plan will address issues and opportunities; land use; housing; transportation; utilities and community facilities; environmental resources; economic development; community character/image; intergovernmental cooperation; and implementation.

The City of Southfield’s central location, extensive business community and varied demographic composition uniquely positions Southfield to exert a positive influence on the future growth and development of metropolitan Detroit. Southfield has remained a vibrant community while reacting to seemingly endless development proposals for more than 20 years. While there were many policies and procedures shaping that success over the years, the time has come for Southfield to develop a new plan for the future. Current City land use decisions have evolved from major new developments to infill and redevelopment. The Plan will give the City guidance when deciding future new development, redevelopment and capital improvement projects. It will also document the City’s planning history, and complement the City’s Strategic Plan.

Southfield elected officials and City staff, in conjunction with the consultant team comprised of Carter & Burgess Consultants, Inc., LSL Planning, Tetra Tech of Michigan, 5 Star Engineering and Donald T. Iannone & Associates, will embark on this two-year planning process to develop the plan. The implementation of the new Comprehensive Master Plan will preserve the best of Southfield and serve as a catalyst for change where it is needed. Southfield’s various districts, corridors and neighborhoods deserve a new Comprehensive Master Plan to sustain the city as a viable community through the 21st Century and beyond.

The Southfield Brownfield Redevelopment Authority provides major tools and incentives for businesses to revitalize “brownfields,” which are environmentally contaminated properties and properties that are abandoned, undeveloped or under-utilized properties. These tools include tax increment financing and small business tax credits to potential developers of brownfield properties. The ability to offer incentives of this magnitude enables Southfield to entice new development to areas that may otherwise be overlooked due to the additional costs of redevelopment. In recent years, the Southfield Brownfield Authority has facilitated the redevelopment of several key parcels in our community, including the Lear Corporation World Headquarters, Spring Haven housing development (former Southfield Downs Trailer Park), and the renovation of Tel-Twelve Mall.

An essential component of the City’s vitality is its attractive, diverse, and affordable housing. Southfield continues to attract new residential development with a number of single family and multi-family homes approved or under construction in the 2005-06 fiscal year. Spring Haven Villas/Pointe is a mixed use development of 170 urban town homes and 57 detached site condos located on the east side of Southfield Road between Twelve and Thirteen Mile Roads. An 11,000-square-foot retail development is in the planning stages for the Southfield Road property at the east entrance to the Spring Haven/Villas

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residential development. Lochmoor Estates, a 34-unit detached site condominium development located on the south side of Ten Mile Road between Lahser and Berg Roads, is in the final phases of construction. Bella Gardens, a 28-unit attached site condo and 9-unit detached site condo development is located at the northeast corner of Lahser Road and Duns Scotus. The Villas at Cornerstone is a mixed use development consisting of 182 townhomes and carriage homes and a 9,200 square feet commercial building with a coffee shop and dry cleaners located at the northwest corner of Eight Mile Road and Northland Drive. Christopher Woods is a 23-unit attached site condominiums development located at the southwest corner of Pebblecreek Parkway and 12 Mile Road. These dynamic new projects will have a positive impact on the immediate neighborhoods and the City as a whole.

In the Cornerstone District, the Cornerstone Development Authority (CDA) has experienced tremendous success with condominium conversion. The North Park Place apartments were purchased and converted into condos with average sale prices in the \$140s. The Eagle's Landing apartments were also sold to a developer who has completed renovations to the north tower for a condominium conversion. This project has provided much needed new life to this once-challenged property.

The CDA sponsored the 'Best Practices for Safety and Security in the Workplace' seminar in September of 2005 to provide participants with the resources and information necessary to minimize potential security risks. Members of the Southfield Police Department, Fire Department and Emergency Management Division addressed issues such as crime prevention, emergency preparedness and fire safety. Representatives from private sector security companies also provided an overview of the latest surveillance and alarm system technology as well as insight into the future of private sector security. Also in the district, Providence Hospital continues to be a world-class institution as southeast Michigan's only National Top 100 Heart Hospital for 6 years running.

The City sold \$12.5 million of Michigan Transportation Fund Bonds in 2005 to fund the Southfield Major Street Improvement Program and the City's contribution to the long awaited I-696/Franklin Interchange project. The City was awarded \$4.6 million in federal highway transportation funds that supplemented state funds to finance the I-696/Franklin Interchange, culminating a lengthy and complex planning/funding process. The project consists of two new freeway service ramps to the I-696 freeway at Northwestern Highway to complete the Telegraph Road/I-696/M-10 Interchange. It includes an eastbound I-696 off-ramp at Franklin Road connecting to American Drive and a westbound on-ramp from Franklin Road immediately north of the Franklin Road Bridge over I-696. Work began in the spring of 2006 and major construction is expected to be completed in the fall of 2006. Significant economic, safety and logistical benefits will be realized as well as reduced congestion and improved emergency access. Further, the ramp will also provide convenient access to the City's new SmartZone and the American Commerce Center Park, enhancing the development and redevelopment potential of this key area of the City.

The last of the 10 projects designated for the 2005 Southfield Major Street Improvement Program were completed the end of November. The combined cost of the 10 projects completed in 2005 totaled \$5.85 million. The City used the proceeds from the bond sale to reconstruct and improve Southfield roads before further deterioration increased project costs. The bond sale enabled the City to address the needs of the major street system much sooner than would have been possible without the bond proceeds.

The projects were broken down into two phases. The 2005 Major Street Improvement Program, Phase I, consisted of five separate projects. Work began in August of 2005 and was completed in November at a combined cost of \$2,308,000. Phase I projects included: Division 1 - Evergreen Road resurfacing and concrete curb/gutter replacement from Winchester to Twelve Mile Road; Division 2 - Civic Center Drive

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resurfacing and concrete curb/gutter replacement from Telegraph to east of Berg Road, Berg Road north to south; Division 3 - Inkster Road resurfacing and concrete curb/gutter replacement, and new storm drainage from Twelve Mile Road to Northwestern Highway; Division 4 - Central Park Boulevard resurfacing and concrete curb/gutter replacement from Civic Center Drive to I-696; and Division 5 - Civic Center Drive resurfacing from Lahser Road to M-10.

The 2005 Major Street Improvement Program, Phase II, consisted of four separate projects. Work began in August and was completed in November at a combined cost of \$2,233,000. Phase II projects included: Division 1 - Civic Center Drive resurfacing and concrete curb/gutter replacement from Berg Road to Lahser Road; Division 2 - Nine Mile Road resurfacing and concrete curb/gutter replacement from Rouge River to Lahser Road; Division 3 - Nine Mile Road resurfacing and concrete curb/gutter replacement from west of Laura to northbound M-39 Service Drive; and Division 4 - Sidewalk installation on Nine Mile Road at M-10 and M-39 bridges.

Additionally, Lahser Road was widened to five lanes between Ten Mile Road on the south and Civic Center Drive on the north, including reconstruction of both intersections. Work began on this project in September and was completed in November at a cost of \$1,311,000. Work also began to replace the 74-year old Nine Mile Road Bridge over the Rouge River between Inkster and Beech Roads in April of 2006.

In July of 2006, work will begin on the Plaza Deck Improvement Project, a major capital improvement campaign at the Southfield Municipal Complex. Bids were received in May for the demolition and repair of the waterproof barrier, concrete deck, drainage system and installation of 80,000 square feet of new concrete pavers. The plaza deck project was designed, put out for bid, and will be managed in-house by City staff at a significant cost savings. The project demolition is slated to begin in July with the completion of the project expected by mid December. The completed project will also include: 4000 square feet of new gardens and new perimeter planters, new picnic tables, benches, trash cans, and bike racks. The landscaped areas will emphasize color and texture with low maintenance flowers, shrubs, trees, and ground covers. Once completed, the Plaza Deck Improvement Project will transform a formerly abandoned and dysfunctional space into a user and environmentally-friendly area that both citizens and employees can enjoy year-round.

Southfield continues to preserve and protect woodlands and wetlands with over 380 acres of natural areas set aside for preservation. As part of this effort, the City acquired the Carpenter Lake area to enable the \$3.5 million Carpenter Lake Restoration Project. The City is currently making recreational site improvements, including reconstructing the existing dam and dredging the lake to restore it to its original size. The Department of Public Works, in cooperation with the Department of Parks and Recreation, has been working to develop the Carpenter Lake Nature Preserve on the Ravines Branch of the Rouge River. In 2006 Phase 1 of the project was completed. This phase consisted of removing accumulated sediments from the lower portion of the lake and rebuilding the dam, which was undersized and failing. Construction also began on Phase 2-A of the project in 2006. This phase will restore the lake habitat for fish and wildlife. Phase 2-B will begin construction in 2007 and will provide for park development of the forty-two acre property immediately east of the lake. Both Phase 1 and 2 of the project is funded with the assistance of a National Wet Weather Demonstration Project Grant from the Environmental Protection Agency through the Rouge Program Office in the amount of \$965,000. Phase 2 construction, both parts A and B, are also supported by a \$500,000 Michigan Natural Resources Trust Fund grant from the Michigan Department of Natural Resources. The City also acquired the 16-acre Berberian property, funded entirely by outside sources (State, Community Foundation of Michigan, Oakland Land Conservancy), to develop the Valley Woods Trail from 10 to 11 Mile along the Rouge River.

City of Southfield

Letter of Transmittal

Curb appeal is important in maintaining the City's image and character; to that end, Public Works undertook several initiatives to ensure the City's streets, sidewalks, neighborhoods and business districts remain safe, clean and appealing. Initiatives included the continuation of programs for snow and ice removal, mowing and sweeping of three County roads: Lahser, 10 Mile and 12 Mile Roads; an extra sweep through residential streets; increased right-of-way mowing; and cleaning of ramps and side slope mowing during freeway road closures.

Beautification efforts are further strengthened through the Neighborhood Entranceway Marker Program administered through the City's Neighborhood and Information Center, a division of the Community Relations Department. In 2005, 22 entranceway projects were funded to improve neighborhood entranceway signs and landscaping based on a dollar-to-dollar match. Additionally, 43 individual homeowners, neighborhood and condo associations, and public buildings were recognized for outstanding overall appearance and landscaping through the City's annual Community Pride Awards program. The new Southfield Parks & Garden Club, a grassroots effort led by volunteers, assisted with the judging in addition to working on several other beautification projects throughout the City. Additionally, the City sponsored the 4th annual Southfield Flower Day in May of 2006 to promote beautification efforts by providing residents the opportunity to shop for plants and flowers from several local vendors in one convenient location.

The Southfield city government continues to meet the ever-changing needs of the community. City leaders remain committed to delivering quality city services in a cost-effective manner with a continuous focus on taxpayer concerns. To this end, the Southfield Council approved the new Strategic Plan 2005-2010, a five-year plan designed to preserve and ensure the City's financial strength for the long haul. As part of the plan, the City adopted a two-tier compensation program for newly-hired employees that will position the City for future benefit savings. The Fire Department began providing emergency medical transport during the last quarter of 2004-05 as a new service to the community and an additional revenue source. In fiscal year 2005-06, the Fire Department generated nearly \$1 million in new revenues from emergency transport runs.

Southfield continues to adhere to the highest standards of service to the community, including strong emphasis on fiscal responsibility. The City has continued to maintain its AA+ bond rating, placing Southfield in the top 3.5% of the more than 450 public agencies within the State of Michigan currently rated by Standard & Poors. The City of Southfield is also a multiple-year recipient of the Government Finance Officers Award for Excellence in Financial Reporting.

Southfield remains safe and secure as a result of the dedicated, highly-trained and well equipped members of our award-winning "9-1-1" police, fire and emergency management departments. The police department continues to be a trend setter by developing effective community policing programs designed to augment traditional police activities. The department launched the 'Operation GOT M' program in conjunction with homeowner's associations to better address community nuisance complaints. The fire department's Life Support Unit (LSU), the City's emergency medical service, offers a response of four minutes or less – one of the fastest in the country. The City of Southfield became Michigan's first "heart safe" city by installing heart defibrillators in all municipal buildings as well as major office buildings and entertainment venues throughout the community.

The City of Southfield is one of only 20 communities in the State of Michigan that provides residents with a designated Emergency Management Division. The division is concerned with planning and preparing for potential disasters before they occur and coordinating efforts during actual disasters. The

City of Southfield

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Emergency Management division has applied for and secured over \$700,000 in federal grants to better prepare and safe-guard Southfield. The City will also soon have its first dedicated Emergency Management Operations Command Center complete with “back-up” generator power in case of a natural or man-made emergency. In keeping with the City’s commitment to public safety and security, \$37.8 million, or 56% of the 2005-06 fiscal year general fund budget, was earmarked for public safety activities.

The City’s Department of Parks and Recreation offers more than 1,000 high-quality programs and services to both residents and business people of all ages and interests. The City of Southfield continues to be the home of the V98.7 Smooth JazzFest on the front lawn of the municipal complex. Each year, the event continues to grow, drawing national acts and thousands of visitors from across the metro area. The Parks and Recreation department continues to offer exciting new programs and community partnerships, such as the 100 Days to Health campaign and the American Heart Association Heart Walk. The 100 Days to Health campaign is a partnership with Providence Hospital geared to promote healthy living and lifestyles through health education classes, programs and activities. The City sponsored another successful 100 Days to Health kickoff with a 5K Run, 1-Mile Fun Run/Family Walk, and free health screenings in April of 2006. Youth programs were also expanded to include programs for individuals with disabilities, specifically the Michigan Thunderbird wheelchair basketball program and the Mighty Oaks sports program. The City of Southfield also hosted a dedication ceremony for the new universally accessible “Play Farm” playground at Inglenook Park, located on west Twelve Mile Road between Lahser and Evergreen Roads in June of 2006. The “Play Farm” was made possible through grants from the federal Land and Water Conservation Fund administered through the Michigan Department of Natural Resources and the W.K. Kellogg Foundation as part of a statewide effort to help communities build universally accessible playgrounds and recreation facilities for children of all abilities. The Play Farm at Inglenook Park consists of farm-themed play equipment, including tractor bouncers, animal cutouts and an enormous playscape that has red barn top roofs. The new Play Farm is now the largest playground in the city, complementing the existing fitness trails, ball diamonds and the restored Miller Barn at the 42-acre Inglenook Park.

The Miracle League of Michigan continues to operate the first Miracle League baseball field in the State of Michigan on the grounds of the Southfield Municipal Complex. The league is a non-profit organization determined to give every child with mental and physical disabilities the chance to play baseball. Many sponsors helped to offset the estimated \$535,000 in construction costs. The Miracle League gives every child the chance to be part of a team and enjoy the all-American game of baseball. The custom-designed venue incorporates a cushioned synthetic turf that accommodates wheelchairs and other walking devices while helping to prevent injuries. During each Miracle League game, every child is given an opportunity to hit the ball and score a run. The field is the first of its kind in the area and it serves children throughout the entire State of Michigan.

The Southfield Public Library continues to exceed all expectations, with top-notch amenities and ample public meeting spaces – the Library is truly a gem in Southfield’s crown. The Southfield Public Library is a state-of-the-art facility that averages over 2,700 visitors every day. Its many amenities include an expanded 180,000 book collection; two computer labs; sophisticated computer network with hundreds of data drops; numerous meeting rooms; two auditoriums; 16 group study rooms; three outdoor terraces; fireplaces on each level; the Bookends Café; and stunning architectural and interior design. The Library has received numerous regional and national awards for its innovative architecture, programs and services. The Southfield Public Library offers over 20 computer classes every month, ranging from Computer Fundamentals to Microsoft Word II for people at all levels of computer literacy. As more residents visit the library, so to has participation in library programs. The library’s annual Battle of the

City of Southfield

Letter of Transmittal

Books program continues to be very popular, with over 730 students participating in 2006. Several other library programs such as the Jazz and Blues series, the Southfield Books & Beyond Festival, the Family Dinner Theaters, and the Local Author Book Fairs continue to be very successful.

The City continues to keep the community apprised of the latest news and information through a comprehensive Web site, city cable channel, and detailed publications and newsletters. Plans are in the works to develop an entirely new municipal Web site that will provide the community with a wealth of City information at their fingertips. The Southfield City Cable Channel 15 continues to provide the community with high-quality cable programming and coverage of local events. The City's 2005 Annual Report/Calendar won first place in the Michigan Municipal League's 22nd annual Achievement Awards. The calendar won in the category of 'Superior Delivery of Service' in the cities with population range of 25,001 and above.

Southfield remains a model of multiculturalism. As home to large concentrations of Chaldean (Catholic Iraqi), African-American, Jewish, Armenian, Russian Orthodox and Korean residents, Southfield is truly one of the most diverse communities in Michigan. Its large international business population, including significant numbers of Asian, Middle Eastern, African and European businesses, helps position it as a cosmopolitan center. Japanese businesses are prominent in the community, over 50 in total, including the North American headquarters of Denso International, Toyota Industries, Panasonic Automotive Electronics, Mitsubishi International and Mitsui & Co., among others. Southfield is also the corporate home of Wagon Engineering, an English-based division of Wagon Automotive; as well as Autoliv Electronics America, a Swedish corporation; and ThyssenKrupp, a German steel conglomerate.

Southfield's many diverse cultures are supported by educational institutions, chambers of commerce, foreign trade offices and others, including Language Center International, American Academy of International Education, Dr. Martin Luther King, Jr. Task Force Committee, Focus on American and Arab Interests & Relations, French American Chamber of Commerce, Michigan Hispanic Chamber of Commerce, Philippine American Community, Korea Trade Center, Japan Business Society of Detroit and Trade Commission of Mexico. Southfield's elected leadership is equally diverse and helps assure Southfield remains a nationally-recognized multicultural model.

An international city bustling with people from a rich array of cultural, ethnic and religious backgrounds, Southfield's most recognizable landmarks include the gold-domed St. John's Armenian Church and the striking Congregation Shaarey Zedek, among the most beautiful examples of religious architecture in Michigan. The distinctive gold and black towers of the Southfield Town Center, Southfield's signature landmark, are home to many of the international firms in the community. Dining out also offers a reminder of Southfield's position as a global city, with restaurateurs from around the world offering the best in Asian, Italian, African-American, Middle Eastern, Jewish and continental cuisine. Experiencing this multicultural environment makes youth and adults alike more at ease in the global village of the 21st Century, knowledgeable about cultures, customs and traditions worldwide, while promoting harmony and understanding among people of all backgrounds and heritages.

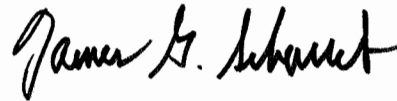
Southfield's modern infrastructure, diverse mix of residential and business cultures, emphasis on beautification and roadside appearance, and premier City services have created a statewide model of a successful community environment, helping provide a solid foundation for the City's continued growth and prosperity. The information and analysis presented in the following pages reflect the City's commitment to high standards of financial reporting and to Southfield's future vitality.

City of Southfield

Letter of Transmittal

Appreciation is extended to the elected officials, department heads and other employees responsible for contributing to the City's sound financial position. Southfield is blessed with individuals who appreciate and respect principles of fiscal restraint and propriety, enabling the City to successfully address economic challenges. In particular, we acknowledge the special efforts of the fiscal services employees who contributed to the development of this report. The continuing support of Southfield's elected officials, who remain committed to fiscal integrity and financial leadership, is particularly appreciated.

Respectfully submitted,

A handwritten signature in black ink, reading "James G. Scharret". The signature is fluid and cursive, with the first name "James" and last name "Scharret" clearly legible.

James G. Scharret
City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Southfield
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



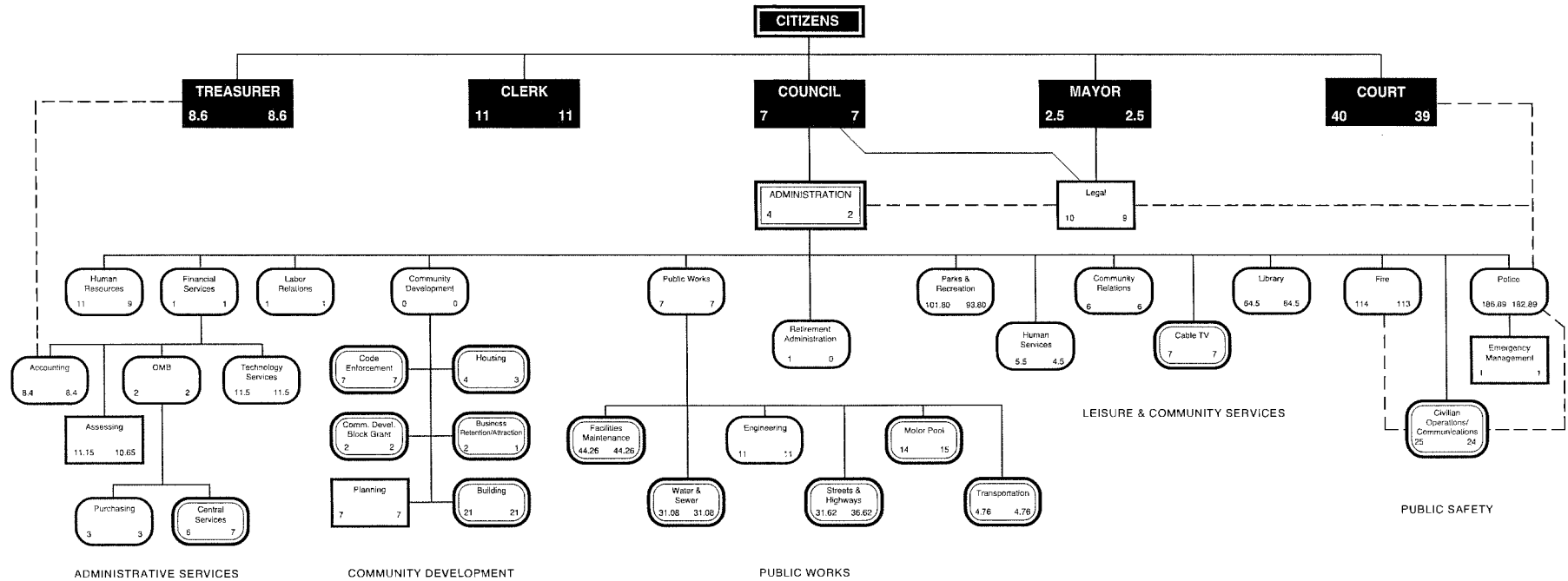
A handwritten signature in black ink, appearing to read "Thomas J. Haen".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Organizational Chart



Number to left of department gives 2004-05 authorized personnel;
number to right gives 2005-06 authorized complement.

Approved Total 2004-05: 837.56
Approved Total 2005-06: 820.06

KEY TO SYMBOLS

- Elected officials
- Appointed by Council
- Head appointed by Mayor with confirmation by Council
- Head appointed by Administrative Civil Service Commission
- Head appointed by Administrator with confirmation by Council
- Line of command and/or policy coordination
- - - Related function, or serves in conjunction with

CITY OF SOUTHFIELD, MICHIGAN

-MAYOR-

Brenda L. Lawrence

-CITY COUNCIL-

Sylvia Jordan, President

Kenson J. Siver, President Pro Tem

Roy T. Bell

Donald F. Fracassi

Myron A. Frasier

Sidney Lantz

Joan Seymour

-CITY CLERK-

Nancy L. M. Banks

-CITY TREASURER-

Roman J. Gronkowski

-CITY ADMINISTRATOR-

Dale E. Iman

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Southfield, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southfield, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southfield, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southfield, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Southfield, Michigan's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The budgetary comparison schedules and the combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and the retirement system schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

To the Honorable Mayor and Members of the City Council
City of Southfield, Michigan

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 4, 2008 on our consideration of the City of Southfield, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

January 4, 2008

CITY OF SOUTHFIELD

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the City of Southfield's (the City's) financial performance, providing an overview of the activities for the fiscal year ending June 30, 2006. This analysis should be read in conjunction with the transmittal letter, beginning on page 1 of this report, and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-Wide:

- Net assets (excluding component units) increased by \$5.5 million, or 3.5%, from \$156.0 million to \$161.5 million
- Governmental activities net assets increased by \$1.8 million to \$112.2 million.
- Business-type activities net assets increased by \$3.7 million to \$49.3 million.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported combined ending fund balance of \$40.5 million, with \$18.7 million being reserved, designated, or otherwise earmarked for specific purposes.
- The fiscal year 2006 governmental funds combined ending fund balance reflects a decrease of \$7.7 million from the prior fiscal year.
- This combined decrease, however, is made up of a decrease in the General Fund ending balance of \$.6 million, an increase of \$1.6 million in the ending fund balance in the Major Street fund, a decrease of \$1.6 million from the Capital Improvement fund and a decrease in the non-major governmental funds of approximately \$7.1 million. The main reason for the decrease in the non-major funds was due to the use of \$8.3 million from the Road Construction fund which was mainly due to the transfer of bond proceeds into the Major Street Fund as noted below.
- The decrease in the General Fund balance was primarily due to reduced revenue sharing from the State of Michigan and increased payroll and fringe benefit costs. The increase in the Major Street Fund was due to using bond proceeds of \$8.3 million from the non-major Road Construction Fund balance for all major street activity and leaving its capital budgets unused. The decrease in the Capital Improvement Fund was due to the use of bond proceeds in the amount of approximately \$1.6 million to finish capital renovations. Within the Non-Major Funds, the Special Revenue and Debt Service funds showed operating efficiencies of \$2.2 million and \$.6 million, respectively. While the Capital Project Funds, showed an overall decrease of approximately \$9.9 million. This decrease was mainly due to the transfer of the bond proceeds of approximately \$8.3 million to the Major Streets Funds as well as additional capital projects of approximately \$1.6 during the year.

Capital and Long-term Debt Activities:

- On behalf of the City, the County bonded \$.1 million for Drain usage rights.
- The City is \$363.6 million below its authorized debt limit.

City of Southfield

Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report of the City consists of the following components: 1) An Introductory Section which includes the Transmittal Letter; 2) A Financial Section which includes the Auditor's Report, the Management Discussion and Analysis, the Basic Financial Statements (government-wide financial statements, fund financial statements, notes to the financial statements), Required Supplementary Information such as a budget to actual comparison for the General Fund, additional Non-Required Information including combining financial statements for all non-major governmental funds and proprietary funds; and 3) A Statistical Section.

Government-wide Financial Statements

The set of basic financial statements includes the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. These statements help the reader to determine if the City of Southfield, in its entirety, is better or worse off as a result of this fiscal year's activities. These statements, which include all non-fiduciary assets and liabilities, are reported on the accrual basis of accounting, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when an obligation is incurred; regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 36) presents the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or declining.

The Statement of Activities (page 37) presents information showing the City's net assets change during fiscal year 2006. All changes in net assets are reported based on the period during which the underlying events giving rise to the change occurred, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

Governmental Activities - Taxes, charges for services, and intergovernmental revenue primarily fund these services. Most of the City's departments and operations are reported under these activities. **Business-type Activities** - These activities operate like private-sector businesses. The City's Water and Sewer Fund charges fees to recover the cost of the services provided.

Discretely Presented Component Units - Component units are legally separate organizations for which the City Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. Six discretely presented component units are included: the Local Development Finance Authority, the Tax Increment Finance Authority, the Economic Development Corporation, the Downtown Development Authority, the Brownfield Re-Development Authority and the Southfield Non Profit Housing Corporation.

As stated previously, the government-wide statements report on an accrual basis of accounting. However, the governmental funds report on a modified accrual basis. Under modified accrual accounting, revenues are recognized when they are available to pay obligations of the fiscal period, expenditures are recognized when they are due.

City of Southfield

Management's Discussion and Analysis

Government-wide Financial Statements (continued)

Because of the different basis of accounting between the Fund Statements (described below) and the government-wide statements, pages 36 and 37, the City presents reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

Capital assets used in government activities and depreciation expense are not reported on the government fund financial statements, however depreciation expense is reported on the government-wide statements. Capital outlay spending results as capital assets on the government-wide statements and are reported as expenditures on the government fund financial statements.

Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.

Long-term contingencies, such as reserves for sick and annual leave (compensated absences, etc.), appear as liabilities on the government-wide statements; however they will not appear on the fund statements unless current resources are used to pay a specific obligation. Bond and loan proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the City's assets such as land, buildings and furniture and fixtures. These values are not included in the fund financial statements.

Fund Financial Statements

The fund financial statements, which begin on page 40, provide information on the City's significant funds - as a whole. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that is used to keep track of specific sources of funding and spending for a particular purpose. Funds are also utilized to track specific operations; these include the internal services funds (e.g., Motor Pool, Equipment Revolving, etc.) as well as the Water and Sewer enterprise fund.

The basic financial statements only report major funds separately as defined by the Government Accounting Standards Board (GASB). All other funds are classified as non-major funds. Detailed information on non-major funds can be found in other sections of this report.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

Governmental Funds – Basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year, and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance programs. These funds are reported using the modified accrual basis of accounting as described above. Because this basis of accounting differs from the government-wide statements, additional information is provided reconciling the government fund statements to the government-wide statements. Governmental funds include the General Fund, as well as Special Revenue Funds, Capital Projects Funds and Debt Service Funds.

City of Southfield

Management's Discussion and Analysis

Fund Financial Statements (continued)

Proprietary Funds – Funds with a focus on operating income and cost recovery are reported in proprietary funds. Proprietary funds use the accrual basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. Enterprise funds report activities that provide supplies and services to the general public. The Water and Sewer Fund is the City's only enterprise fund. Internal Service funds report activities that provide supplies and services to the City's other operations. Internal Service funds, such as the Motor Pool fund, are reported as governmental activities on the government-wide statements.

Fiduciary Funds – The City acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in separate statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 52. These funds, which include Pension, Retiree Health Care Benefits Plan and Trust and Agency, are reported using the accrual basis of accounting. The government-wide statements exclude the fiduciary fund activities and balances because these assets are not available to fund current operations.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The notes can be found beginning on page 60 of this report.

Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information (RSI) which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedule for the General Fund and the major governmental funds as well as pension trend data.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and are presented in single columns in the basic financial statements, but are not reported individually, as are the major funds, on the government-wide statements.

City of Southfield

Management's Discussion and Analysis

FINANCIAL ANALYSIS

As previously stated the City's combined net assets increased by \$5.5 million over the course of this fiscal year's operations. The net assets of the governmental activities increased in the amount of \$1.8 million; the net assets of the business type activities increased by \$3.7 million.

The following is a condensed Statement of Net Assets for the period ending June 30, 2006:

Net Assets June 30, 2006 (in millions of dollars)						
	Governmental Activities		Business Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current and other assets	\$ 81.6	\$ 90.7	\$ 13.0	\$ 11.3	\$ 94.6	\$ 102.0
Capital assets	95.9	87.5	74.4	76.9	170.3	164.4
Other long term assets	11.9	6.8			11.9	6.8
Total assets	<u>189.4</u>	<u>185.0</u>	<u>87.4</u>	<u>88.2</u>	<u>276.8</u>	<u>273.2</u>
LIABILITIES						
Current liabilities	8.3	12.4	3.3	4.4	11.6	16.8
Other liabilities	68.9	62.2	34.8	38.2	103.7	100.4
Total liabilities	<u>77.2</u>	<u>74.6</u>	<u>38.1</u>	<u>42.6</u>	<u>115.3</u>	<u>117.2</u>
NET ASSETS						
Invested in capital assets net						
of related debt	44.0	37.6	39.8	39.7	83.8	77.3
Restricted	22.0	29.8			22.0	29.8
Unrestricted	46.2	43.0	9.5	5.9	55.7	48.9
Total Net Assets	<u>\$ 112.2</u>	<u>\$ 110.4</u>	<u>\$ 49.3</u>	<u>\$ 45.6</u>	<u>\$ 161.5</u>	<u>\$ 156.0</u>

City of Southfield

Management's Discussion and Analysis

Financial Analysis (continued)

The following is a condensed representation of financial information using the government-wide Statement of Activities and reflects the changes in the City's net assets during the fiscal year:

Changes in Net Assets for the fiscal year ending June 30, 2006 (in millions of dollars)

	Governmental Activities		Business Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues						
Charges for services	\$ 17.4	\$ 15.9	\$ 30.8	\$ 28.3	\$ 48.2	\$ 44.2
Grants and contributions	11.4	10.3			11.4	10.3
General revenues						
Property taxes	57.4	56.6			57.4	56.6
Unrestricted state shared	7.5	8.9			7.5	8.9
Investment earnings	2.1	1.3	0.1	0.1	2.2	1.4
Other	1.5	0.4			1.5	0.4
Total revenues	<u>97.3</u>	<u>93.4</u>	<u>30.9</u>	<u>28.4</u>	<u>128.2</u>	<u>121.8</u>
EXPENDITURES						
General government	19.5	17.1			19.5	17.1
Public safety	43.9	43.4			43.9	43.4
Highway and streets	6.6	9.3			6.6	9.3
Public services	1.3	1.1			1.3	1.1
Sanitation	3.0	3.1			3.0	3.1
Community improvement	0.7	0.9			0.7	0.9
Social services	3.2	3.0			3.2	3.0
Culture and recreation	15.6	15.6			15.6	15.6
Water and sewer			26.2	25.0	26.2	25.0
Interest on long term debt	2.7	2.9			2.7	2.9
Total expenditures	<u>96.5</u>	<u>96.4</u>	<u>26.2</u>	<u>25.0</u>	<u>122.7</u>	<u>121.4</u>
Excess (deficiency) before transfers	0.8	(3.0)	4.7	3.4	5.5	0.4
Transfers in	1.0	1.1			1.0	1.1
Transfers out			(1.0)	(1.1)	(1.0)	(1.1)
Increase (decrease) in net assets	<u>1.8</u>	<u>(1.9)</u>	<u>3.7</u>	<u>2.3</u>	<u>5.5</u>	<u>0.4</u>
Beginning net assets	116.8	118.7	54.7	52.4	171.5	171.1
Prior period adjustment	(6.4)		(9.1)		(15.5)	
Ending net assets	<u>\$ 112.2</u>	<u>\$ 116.8</u>	<u>\$ 49.3</u>	<u>\$ 54.7</u>	<u>\$ 161.5</u>	<u>\$ 171.5</u>

City of Southfield

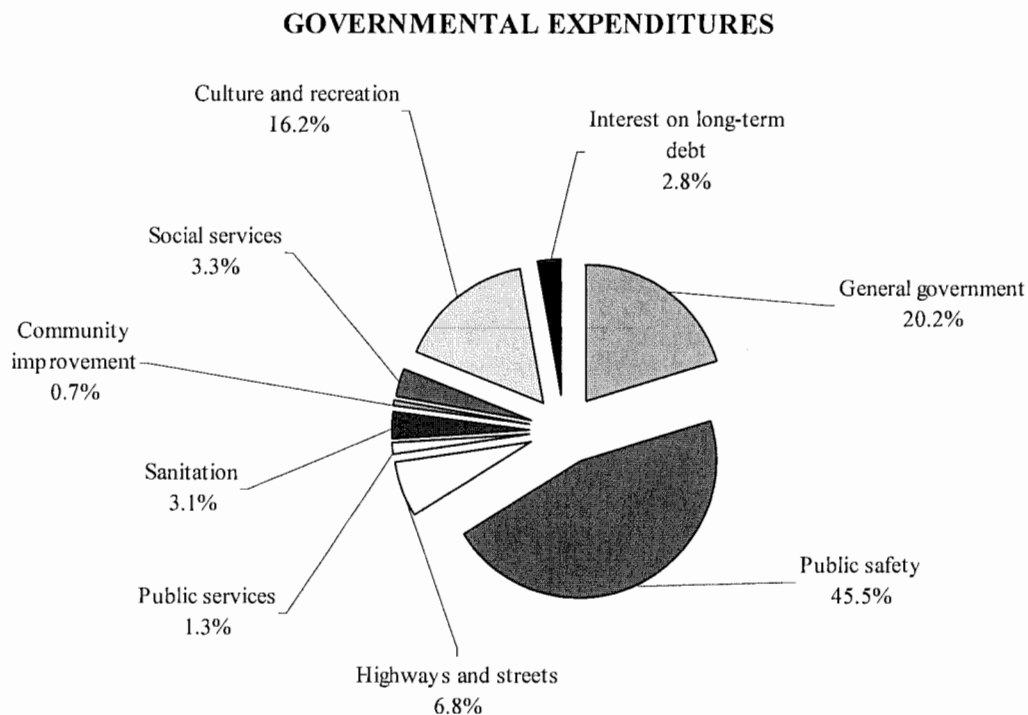
Management's Discussion and Analysis

Financial Analysis (continued)

Governmental Activities:

The result of 2006 fiscal year's governmental activity was an increase of \$1.8 million and an ending net assets balance of \$112.2 million. Of this total, \$44.0 million is invested in capital assets less related debt, \$22.0 million is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the government. The balance of \$46.2 million is listed as unrestricted, having no legal commitment. However, it should be noted that of the total unrestricted amount, \$6.4 million is reserved, designated, or otherwise earmarked in the General Fund for specific purposes. Refer to Note 4. A. on page 86, for a complete list of designations.

The following chart depicts expenditures of the governmental activities for the fiscal year:



Governmental activity expenses for the fiscal year increased by \$.1 million. Public Safety is the largest governmental activity, expending \$43.9 million of the governmental activities total expenses of \$96.5 million. It comprises 45.5% of total governmental expenses. This activity increased by .12%, as the City attempts to constrain personnel costs by holding vacancies open during contract negotiations. General government is the second largest governmental activity with a total expenditure of \$19.5 million, expending 20.2% of total governmental expenses. This activity increased 14.0%. The General government expenses increased by \$2.4 million as the city recognized a \$3.1 million tax liability of which \$2.3 million relates to general government. Cultural and recreation is the third largest governmental activity with a total expense

City of Southfield

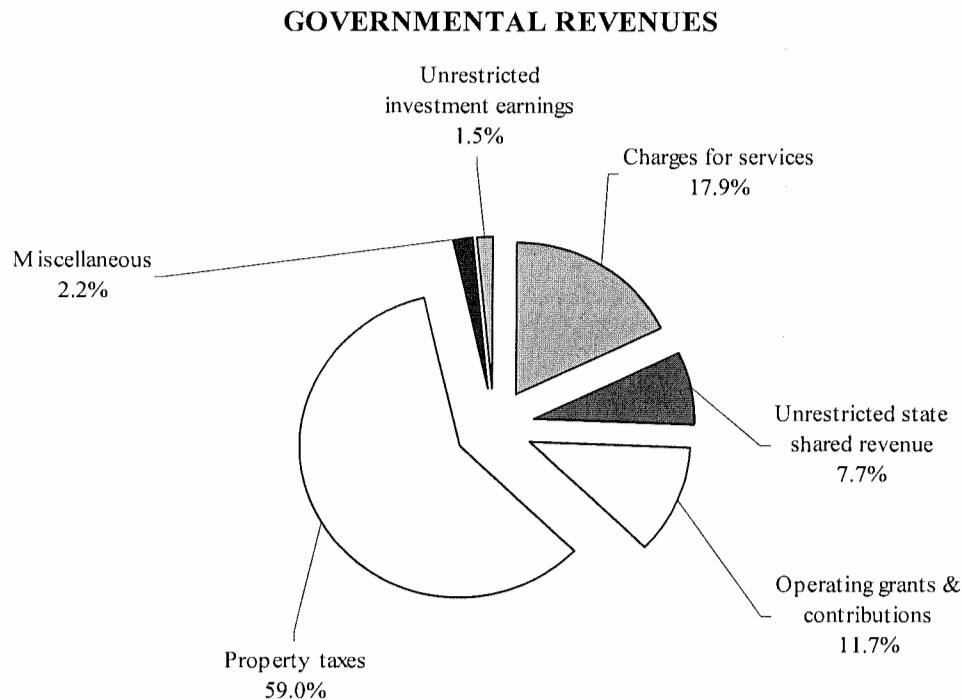
Management's Discussion and Analysis

Financial Analysis

Governmental Activities (continued)

of \$15.6 million, expending 16.2% of total governmental expenses. This activity reported no change of last year. These three categories expend over 81.9% of total governmental activity expenses.

The following chart depicts revenues of the governmental activities for the fiscal year:



In total, revenue collections increased in fiscal year 2006 by \$3.9 million. This increase is derived from increases in taxes, charges for services, operating grants and contributions and unrestricted investment earnings with a decrease in state shared revenues. Property tax revenue is the largest source of support for the governmental activities; however, it is not assigned to any particular function. The City's operating millage rate is 16.2 mills. Property tax revenue generated \$57.4 million in 2006. It represented 59.0% of all available sources of revenue. The 1.4% increase over 2005 is explained by a 2.3% increase in taxable assessed values allowed by Proposal A and flat tax rates. Charges for services are the second largest source of governmental activity revenue. It represented 17.9% of all available sources of revenue. This source increased by \$2.6 million, 17.6% greater than 2005. Public safety efforts made up the majority of this increase as \$1.1 million was generated by the City's Fire department becoming the primary ambulance transport service provider. Increased efforts by the Police department, Code Enforcement department and 46th District Court on ordinance compliance derived an additional \$1.2 million. Grants and contributions and unrestricted state shared revenues, which are constitutionally and statutorily provided by the State of Michigan, are the other large sources of governmental activity revenue.

They represented 11.7% and 7.7%, respectively, of all available sources of revenue experiencing a 1.4% decrease over 2005. Over 96.3% of the governmental activities are supported by these four revenue sources.

City of Southfield

Management's Discussion and Analysis

Financial Analysis

Business-type Activities:

The net assets of Business-type activities increased by \$3.7 million during fiscal year 2006. Overall charges for services increased from 2005 by 9.0%. This increase is reflected in charges for services in the amount of \$2.5 million. The City of Southfield increased rates in the original budget in order to keep pace with increasing water charges. Operating expenses increased by 4.8%. This increase is attributed to the cost of transmission and distribution and is directly related to water charges.

Of the total \$49.3 million of net assets in the business type activities, \$9.5 million is reported as unrestricted.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

General Fund

The General Fund is the central operating fund of the City of Southfield. Unless otherwise required by statute, contractual agreement or policy, all revenues and expenditures are recorded in the General Fund. As of June 30, 2006, the General Fund reported a fund balance of \$14.3 million. This amount is a reduction of \$.6 million from the prior June 30. Of the total fund balance, \$8.4 million is reserved, designated or earmarked for specific purposes. These designations include \$1.4 million for subsequent year's expenditure, \$1.2 million for economic development, \$1.4 million for equalization, \$1.4 million for budget stabilization and \$1.3 million for capital projects.

General Fund Budgetary Highlights:

The City of Southfield's budget is a dynamic document. Although adopted in June (prior to the start of the fiscal year), the budget is amended during the course of the fiscal year to reflect changing operational demands.

The General Fund revenue budget was increased marginally during fiscal year 2006, to a final budgeted amount of \$62.2 million. General Fund revenue totaled \$62.5 million, \$.3 million above the final amended budget. Increases in charges for service fees and excess investment earnings made up for revenue shortfalls in tax collections, resulting from sluggish economic conditions in the State of Michigan.

The City's expenditure budget was increased marginally during fiscal year 2006 from \$63.5 million to a final budget of \$63.8 million. Actual expenditures for fiscal year 2006 were \$62.0 million which was \$1.8 million below budget. This total is comprised mostly by savings from a cost reduction program including hiring restrictions and aggressive monitoring of overtime usage. While most of the reduction comes from a hiring freeze, contractual and computer services were reduced by \$.3 million through the new integrated financial system.

In summary, the fiscal year 2006 Final Amended Budget anticipated using \$2.5 million of prior year's fund balance. The actual use of fund balance was \$.6 million.

Major Street Fund

In May 2005, the City of Southfield sold Motorized Transportation Fund bonds in the amount of \$12.5 million for the construction of a new interchange on I-696 at Franklin Road and other improvements to the major road system. After pre-engineering costs of \$.8 million, bond discounts and investment earnings, proceeds in the amount of \$11.6 million were available at the beginning of the fiscal year. \$8.7 million was transferred from the proceeds to Major Street fund to cover road construction costs in 2006, making it a major fund. The remainder of proceeds is anticipated to be used by 2007-2008 fiscal year.

City of Southfield

Management's Discussion and Analysis

Financial Analysis of the City's Major Funds (continued)

Capital projects Fund

The Capital improvement fund became a major fund this year due to several large capital projects supported by internal transfers or loans. Carpenter Lake on the cities west side was dredged and had a dam repaired as part of Phase I of its total restoration. While matching grants are being sought after, the City is financing the project through loans from the Local Improvement Revolving fund. \$1.8 million was spent in the current fiscal year for this project. The City migrated from a non integrated mainframe computer system to a comprehensive integrated financial system. Hardware and software expenses were \$1.1 million and were funded by payments from all the operating funds. The City also replaced aged play ground equipment with a handicap accessible playscape at Inglenook park which cost \$.6 million funded by a LIRF loan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – At the end of Fiscal Year 2006, the City of Southfield had invested \$170.3 million, net of accumulated depreciation, in a broad range of capital assets. With the Carpenter Lake project, Inglenook Playscape, major road reconstruction and resurfacing and water system improvements totaled \$12.8 million making up the majority of the \$16.0 million increase. Refer to Note 3. C. on page 78 & 79 for additional capital asset information.

Long Term Debt – At the end of 2006, the City of Southfield had \$90.2 million in bonds outstanding. The amount of bonds with limited taxing authority in 2006 is \$34.1 million. A more detailed depiction of the City's long-term debt obligations is presented in Note 3. D. on page 80 & 81 to the financial statements.

Bond Ratings – The City's unlimited and limited tax general obligation bond rating from Standard and Poor's is AA+. Moody's Investors Services rating for the City's unlimited tax general obligation bonds is Aa2, and its limited tax general obligation bond rating is Aa3.

ECONOMIC OUTLOOK

Municipalities throughout the State of Michigan will face tough economic challenges over the next three-to-five year horizon. Fortunately, the City of Southfield has a financial plan that will enable the City to not only survive—but to thrive—despite these significant challenges. We are on target to the goals and objectives of that plan.

Within the 2005-06 budget process, City Council adopted a 5-Year Fund Stabilization Plan that is designed to end the City's use of fund balance to support General Fund operations in 5-years or less. At the end of that period, fund balance levels are anticipated to stabilize at a healthy level of at least 12%. In each succeeding year under the plan, the use of fund balance will be reduced by about 40%, reaching the point where in the fiscal year 2009-10 no fund balance will be utilized for operations, and the fund balance will have been stabilized at an acceptable level. The result of General Fund operations for fiscal year 2005-06 indicates that we are on target to the objectives of the 5-Year Fund Balance Stabilization Plan in that the City's use of fund balance to support General Fund operations in 2005-06 was well within the \$1.97 million draw from fund balance adopted in the budget on June 20, 2005. Further, as we look ahead to fiscal year 2006-07, there is every indication that we will achieve a similar disciplined and favorable result. The adopted 2006-07 City budget is also within the limitations of the 5-Year Fund Balance Stabilization Plan.

City of Southfield

Management's Discussion and Analysis

ECONOMIC OUTLOOK (continued)

Among the challenges facing the City of Southfield over the next three-to-five year horizon are:

- **Tax Revenue Limitations:** The City is fully utilizing all available tax resources within the City's Council's usual annual stated goal of no increase in the total tax levy. This results in typical General fund growth of 1.5% to 4%, which figure often is below the rate of growth in the Municipal Cost Index (the CPI for municipal operations).
- **Flat or Declining State Shared Revenues:** This the second largest single source of General Fund revenues after the property tax. The 2005-06 adopted budget reflects a 3.5% decline, or \$263,006, in these revenues from the previous year's levels. The 2006-07 adopted budget for State Shared Revenues is flat to 2005-06 levels.
- **Stagnant Statewide Economic Conditions:** Much has been written about the extent of the economic woes in the Michigan: high unemployment, state government shortfalls, housing pressures, etc., all reflecting the region's traditional overdependence on the domestic auto industry. A difficult and substantial restructuring of the state economy will be required to successfully deal with these challenges.

Here is how the City of Southfield is addressing these challenges:

- Council adoption of the 5-Year Fund Balance Stabilization Plan in 2005-06 was a significant commitment.
- Audited results for 2005-06 show that we are in compliance to the Plan.
- Investment in technology and training for improved financial reporting and budget monitoring. The City's new financial system was fully amortized in 2005-06 paving the way for solid reporting performance for years to come.
- Personnel reductions (40 internal support positions or 10%) without reducing on-the-street services such as Police, Fire, and Roads.
- Exhaustive program review and work flow analysis to get the essential work done with fewer personnel.
- Strict adherence to fiscal policy: one-time monies for one-time purposes (i.e. capital projects) only.
- Constrained labor agreements and wage/salary structures.

It is fully anticipated that these measures will enable the City of Southfield to prosper despite the economic challenges of the day.

CONTACTING THE CITY'S DEPARTMENT OF MANAGEMENT AND BUDGET

This financial report is designed to provide our residential and corporate taxpayers, investors, creditors, and any other interested parties with a general overview of the City's accountability for the financial resources under its purview and to demonstrate the City's commitment to proper standards of financial reporting. If there are questions about this report, or further information is needed, please contact James B. Pierce, City Controller, at (248) 796-5212.

City of Southfield
Government-Wide Statement of Net Assets
June 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Governmental Component Units	Proprietary Nonprofit Housing Corporation *
ASSETS					
Cash and cash equivalents	\$ 16,047,248	\$ 250,033	\$ 16,297,281	\$ 2,404,995	\$ 7,016,205
Investments	47,804,022	3,441,633	51,245,655	7,733,935	
Receivables, net (Note 3B)	13,831,641	10,117,731	23,949,372	685,748	73,004
Prepays	1,418,831	4,587	1,423,418	1,365	222,629
Internal balances (Note 3F)	1,196,450	(1,196,450)			
Due from primary government				369,994	
Due from component units	206,570		206,570		
Due from other governmental units	591,832		591,832		
Inventories	557,089	439,218	996,307		
Long-term advances	6,338,684		6,338,684		
Leased equipment				9,978	
Restricted assets: (Note 3A)					
Cash and cash equivalents	4,100,797		4,100,797		
Investments	1,441,318		1,441,318		
Capital assets: (Note 3C)					
Non-depreciable	11,917,560		11,917,560		2,652,409
Depreciable-net	83,981,612	74,377,735	158,359,347		8,638,001
Total assets	<u>189,433,654</u>	<u>87,434,487</u>	<u>276,868,141</u>	<u>11,206,015</u>	<u>18,602,248</u>
LIABILITIES					
Accounts payable and other current liabilities	5,218,228	3,128,585	8,346,813	15,144	255,685
Interest payable	501,035	213,312	714,347		50,753
Insurance payable	1,289,397		1,289,397		
Workers' compensation payable	696,726		696,726		
Due to component units	369,994		369,994		
Due to primary government				206,570	
Due to other governmental units				3,185,760	
Unearned revenue (Note 3B)	255,339		255,339	126,280	
Noncurrent liabilities: (Note 3D)					
Due within one year	1,698,833	2,591,564	4,290,397	71,213	573,090
Due in more than one year	67,234,812	32,205,162	99,439,974	6,317,218	11,942,865
Total liabilities	<u>77,264,364</u>	<u>38,138,623</u>	<u>115,402,987</u>	<u>9,922,185</u>	<u>12,822,393</u>
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt	43,981,356	39,807,997	83,789,353	4,200	(1,225,545)
Restricted					
Right-of-way funds/Metro Authority	216,886		216,886		
Specific programs	1,397,829		1,397,829		
Highways and streets	8,555,713		8,555,713		
Culture and recreation	432,218		432,218		
Social services	1,002,962		1,002,962		
Grants	28,867		28,867		
Public safety	761,519		761,519		
Debt service	4,558,663		4,558,663		
Capital projects	5,022,604		5,022,604		
Unrestricted	46,210,673	9,487,867	55,698,540	1,279,630	7,005,400
Total net assets	<u>\$ 112,169,290</u>	<u>\$ 49,295,864</u>	<u>\$ 161,465,154</u>	<u>\$ 1,283,830</u>	<u>\$ 5,779,855</u>

The notes to the financial statements are an integral part of this statement.

* Reported as of December 31, 2005

City of Southfield
Government-wide Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Governmental	Proprietary
				Governmental Activities	Business-type Activities	Total	Component Units	Nonprofit Housing Corporation *
Primary government:								
Governmental activities:								
General government	\$ 19,532,789	\$ 1,049,757	\$ 660,000	\$ (17,823,032)		\$ (17,823,032)		
Public safety	43,865,374	8,193,658	1,329,033	(34,342,683)		(34,342,683)		
Highways and streets	6,620,471		6,169,738	(450,733)		(450,733)		
Public services	1,269,836	749,867	19,150	(500,819)		(500,819)		
Sanitation	3,005,450	3,174,219		168,769		168,769		
Community improvement	688,507	351,650		(336,857)		(336,857)		
Social services	3,259,447		2,983,587	(275,860)		(275,860)		
Culture and recreation	15,624,153	3,865,955	214,163	(11,544,035)		(11,544,035)		
Interest on long-term debt	2,677,980			(2,677,980)		(2,677,980)		
Total governmental activities	<u>96,544,007</u>	<u>17,385,106</u>	<u>11,375,671</u>	<u>(67,783,230)</u>		<u>(67,783,230)</u>		
Business-type activities								
Water and Sewer	<u>26,181,432</u>	<u>30,360,684</u>			\$ 4,179,252	4,179,252		
Total primary government	<u>\$ 122,725,439</u>	<u>\$ 47,745,790</u>	<u>\$ 11,375,671</u>			<u>(63,603,978)</u>		
Component units								
Governmental	<u>\$ 3,927,109</u>	<u>\$ 265,795</u>					\$ (3,661,314)	
Proprietary	<u>\$ 3,957,193</u>	<u>\$ 3,456,750</u>	<u>\$ 24,121</u>					\$ (476,322)
General revenues:								
Property taxes				57,438,780		57,438,780	3,684,996	
Unrestricted state shared revenues				7,529,602		7,529,602		
Unrestricted investment earnings				2,128,092	91,887	2,219,979	261,566	600,660
Miscellaneous				1,497,723	452,581	1,950,304	295,754	
Transfers				984,112	(984,112)	-		
Total general revenues and transfers				<u>69,578,309</u>	<u>(439,644)</u>	<u>69,138,665</u>	<u>4,242,316</u>	<u>600,660</u>
Change in net assets				1,795,079	3,739,608	5,534,687	581,002	124,338
Net assets - beginning				116,777,502	54,669,207	171,446,709	139,543	5,655,517
Prior period adjustment				(6,403,291)	(9,112,951)	(15,516,242)	563,285	
Net assets - ending				<u>\$ 112,169,290</u>	<u>\$ 49,295,864</u>	<u>\$ 161,465,154</u>	<u>\$ 1,283,830</u>	<u>\$ 5,779,855</u>

The notes to the financial statements are an integral part of this statement.

* Audited as of 12/31/05

City of Southfield
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds			Non-Major Funds	Total
	General	Major Street Fund	Capital Improvement Fund	Other Governmental Funds	Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 7,386,900	\$ 331,415		\$ 6,502,218	\$ 14,220,533
Investments	4,892,409	4,312,052	\$ 2,695,872	16,559,568	28,459,901
Receivables, net (Note 3B)	9,384,771	677,601	637,216	2,947,090	13,646,678
Prepays	1,092,837		157,867	142,320	1,393,024
Due from other funds (Note 3F)	3,956,110	242,602	1,701,284	2,168,938	8,068,934
Due from component units	28,153				28,153
Due from other governmental units				591,832	591,832
Inventories	216,872				216,872
Restricted assets: (Note 3A)					
Cash and cash equivalents			671,289	2,272,778	2,944,067
Investments				1,441,318	1,441,318
Total assets	\$ 26,958,052	\$ 5,563,670	\$ 5,863,528	\$ 32,626,062	\$ 71,011,312
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	1,043,908	63,866	392,379	2,003,397	3,503,550
Accrued payroll	332,793			203,242	536,035
Due to other funds (Note 3F)	9,794,064	2,794,515		1,847,898	14,436,477
Due to component units	369,994				369,994
Deferred revenue (Note 3B)	933,884		622,542	2,810,737	4,367,163
Other short-term liabilities	208,308			313,147	521,455
Long-term advances from local improvement revolving fund (Note 3F)			4,714,876	2,038,938	6,753,814
Total liabilities	12,682,951	2,858,381	5,729,797	9,217,359	30,488,488
Fund balances:					
Reserved for:					
Right-of-way funds/Metro Authority	216,886				216,886
Encumbrances	333,603	355,945		842,093	1,531,641
Specific programs				1,397,829	1,397,829
Debt service				2,303,075	2,303,075
Restricted assets			671,289	3,714,096	4,385,385
Unreserved:					
Designated for:					
Subsequent year's expenditures	1,372,718				1,372,718
Specific programs	6,429,800			1,076,483	7,506,283
Undesignated	5,922,094				5,922,094
Reported in:					
Special revenue		2,349,344		12,885,856	15,235,200
Capital Projects			(537,558)	1,189,271	651,713
Total fund balances	14,275,101	2,705,289	133,731	23,408,703	40,522,824
Total liabilities and fund balances	\$ 26,958,052	\$ 5,563,670	\$ 5,863,528	\$ 32,626,062	\$ 71,011,312

The notes to the financial statements are an integral part of this statement.

City of Southfield
Reconciliation of the Balance Sheet -
Governmental Funds to the Government-wide
Statement of Net Assets
June 30, 2006

Fund balance for governmental activities	\$ 40,522,824
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Amounts reported for governmental activities
in the statement of net assets are different
because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	91,016,015
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Long-term liabilities are not due and payable in the
current period and therefore are not reported in the funds:

Accrued interest payable	(501,035)
Bonds payable	(56,277,738)
Installment purchase agreement	(1,182,193)
Compensated absences - long-term	(8,021,104)

Other long-term assets are not available to pay for current- period expenditures and, therefore, are deferred in the funds	4,111,823
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Michigan tax tribunal liability	(3,137,989)
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Internal service funds are used by management to charge the costs of maintaining facilities equipment and fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	<u>45,638,687</u>
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Government-wide net assets of governmental activities	\$ <u>112,169,290</u>
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The notes to the financial statements are an integral part of this statement.

City of Southfield
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Major Funds			Non-Major Funds	
	General	Major Street Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 40,004,994			\$ 17,433,786	\$ 57,438,780
Special assessments				351,650	351,650
Charges for services	3,036,206			3,069,789	6,105,995
Sanitation	3,174,219				3,174,219
Licenses and permits	2,415,319				2,415,319
Fines and forfeitures	3,949,725			592,034	4,541,759
Franchise fees				796,165	796,165
Intergovernmental:					
Federal	84,193			3,341,077	3,425,270
State	7,709,834	\$ 4,307,288		1,443,566	13,460,688
Other	530,886	654,732	\$ 19,000	661,100	1,865,718
Contributions and donations			150	153,447	153,597
Investment earnings (loss)	867,265	(21,842)	92,684	1,189,985	2,128,092
Other	721,639		199,303	576,780	1,497,722
Total revenues	62,494,280	4,940,178	311,137	29,609,379	97,354,974
EXPENDITURES					
Current:					
General government	9,803,544		3,098,891		12,902,435
Public safety	42,359,385			1,089,427	43,448,812
Highways and streets		12,613,106		3,349,669	15,962,775
Public services	1,141,958				1,141,958
Sanitation	3,005,450				3,005,450
Community improvement				688,469	688,469
Social services	383,705			2,675,331	3,059,036
Culture and recreation			592,800	14,607,612	15,200,412
Other				1,913,946	1,913,946
Insurance and bonds	685,698				685,698
Support services	4,586,846				4,586,846
Debt service:					
Principal retirement			274,459	876,196	1,150,655
Interest and fiscal charges		414,161	41,276	2,067,058	2,522,495
Total expenditures	61,966,586	13,027,267	4,007,426	27,267,708	106,268,987
Excess (deficiency) of revenues over (under) expenditures	527,694	(8,087,089)	(3,696,289)	2,341,671	(8,914,013)
OTHER FINANCING SOURCES (USES)					
Transfers in (Note 3F)	162,200	9,696,304	2,130,780	2,929,078	14,918,362
Transfers out (Note 3F)	(1,280,538)			(12,425,504)	(13,706,042)
Total other financing sources (uses)	(1,118,338)	9,696,304	2,130,780	(9,496,426)	1,212,320
Net change in fund balances	(590,644)	1,609,215	(1,565,509)	(7,154,755)	(7,701,693)
Fund balances - beginning	14,737,763	1,096,074	1,027,951	30,051,031	46,912,819
Prior period adjustment	127,982		671,289	512,427	1,311,698
Fund balances - ending	\$ 14,275,101	\$ 2,705,289	\$ 133,731	\$ 23,408,703	\$ 40,522,824

The notes to the financial statements are an integral part of this statement.

City of Southfield

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-wide Statement of Activities For the Year Ended June 30, 2006

Net change in fund balances – total governmental funds	\$ (7,701,693)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	15,147,002
Governmental activities allocate the cost of capital assets over their estimated useful lives as depreciation expense.	(3,828,232)
Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Assets. Long-term debt for capital assets is a reduction of net assets however, a reduction of the debt increases net assets. This is the amount of principal paid on long-term debt.	1,150,655
Current year's amortization for discounts payable.	(6,373)
Proceeds from long-term debt.	(121,300)
Delinquent personal property taxes are recorded in the statement of activities when the tax is assessed; they are not reported in the funds until collected or collectable within 60 days of year end	(255,339)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The amount of expenditures for accumulated compensated absences is reported here.	147,601
Michigan tax tribunal contingency	(3,137,989)
Internal Service funds are used by management to charge the costs of certain activities, such as motor pool, and equipment replacement, to individual funds. The net activity of the internal service funds is reported with governmental activities.	428,561
Decrease in accrued interest payable on long-term debt	<u>(27,814)</u>
Change in net assets government-wide statement of governmental activities	\$ <u><u>1,795,079</u></u>

The notes to the financial statements are an integral part of this statement.

City of Southfield
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Business-type Activities - Enterprise Fund Water and Sewer	Associated Governmental Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 250,033	\$ 1,826,715
Investments	3,441,633	19,344,121
Receivables, net (Note 3B)	10,117,731	184,962
Prepays	4,587	25,807
Due from other funds (Note 3F)		8,473,309
Due from component units		178,417
Inventory	439,218	340,217
Restricted assets: (Note 3A)		
Cash and cash equivalents		1,156,730
Total current assets	<u>14,253,202</u>	<u>31,530,278</u>
Noncurrent assets:		
Long-term advances to other funds (Note 3F)		7,353,815
Long-term advances to component units (Note 3F)		5,685,075
Long-term advances to employees		53,608
Capital assets:		
Infrastructure and construction in progress	112,318,119	
Equipment and intangibles	2,233,801	22,343,573
Total capital assets	<u>114,551,920</u>	<u>22,343,573</u>
Less accumulated depreciation	<u>(40,174,185)</u>	<u>(17,460,417)</u>
Total capital assets (net of accumulated depreciation)	<u>74,377,735</u>	<u>4,883,156</u>
Total noncurrent assets	<u>74,377,735</u>	<u>17,975,654</u>
Total assets	<u>88,630,937</u>	<u>49,505,932</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,882,742	599,845
Deposits and escrow	205,422	
Accrued payroll	40,421	57,343
Insurance payable		1,289,397
Workers' compensation payable		696,726
Interest payable	213,312	
Due to other funds (Note 3F)	1,196,450	909,313
Revenue bonds payable (Note 3D)	<u>2,591,564</u>	
Total current liabilities	<u>7,129,911</u>	<u>3,552,624</u>
Noncurrent liabilities: (Note 3D)		
Accrued compensated absences	226,988	314,621
Revenue bonds payable	31,378,174	
Long-term advances from other funds (Note 3F)	<u>600,000</u>	
Total noncurrent liabilities	<u>32,205,162</u>	<u>314,621</u>
Total liabilities	<u>39,335,073</u>	<u>3,867,245</u>
NET ASSETS		
Invested in capital assets, net of related debt	39,807,997	4,883,156
Restricted for debt service		1,156,730
Unrestricted	<u>9,487,867</u>	<u>39,598,801</u>
Total net assets	<u>\$ 49,295,864</u>	<u>\$ 45,638,687</u>

The notes to the financial statements are an integral part of this statement.

City of Southfield

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Fund Water and Sewer	Associated Governmental Internal Service Funds
OPERATING REVENUES		
Charges for consumption and service:		\$ 9,667,051
Water and sewage charges	\$ 29,273,210	
Installation charges	113,701	
Interest and penalties	973,773	
Other	452,581	1,595,200
Total operating revenues	30,813,265	11,262,251
OPERATING EXPENSES		
Administration	2,930,141	2,527,960
Equipment and facility operation		5,599,867
Transmission and distribution	18,145,457	
Service installation and meter reading	935,897	
Depreciation and capital adjustments	4,169,937	2,303,466
Other		894,986
Total operating expenses	26,181,432	11,326,279
Operating income	4,631,833	(64,028)
NONOPERATING REVENUES (EXPENSES)		
Loss on disposition of assets		(9,014)
Investment income	91,887	729,809
Total nonoperating revenue	91,887	720,795
Income before transfers	4,723,720	656,767
OTHER FINANCING SOURCES (USES)		
Transfers in	7,140	
Transfers out	(991,252)	(228,208)
Total other financing sources (uses)	(984,112)	(228,208)
Change in net assets	3,739,608	428,559
Total net assets - beginning	54,669,207	45,937,954
Prior period adjustment	(9,112,951)	(727,826)
Total net assets - ending	\$ 49,295,864	\$ 45,638,687

The notes to the financial statements are an integral part of this statement.

City of Southfield
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Fund Water and Sewer	Associated Governmental Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 30,081,714	\$ 10,333,527
Cash paid to employees	(2,504,387)	(4,245,624)
Cash paid to suppliers	(22,083,360)	(4,406,212)
Net cash provided by operating activities	5,493,967	1,681,691
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Short-term advance within an interfund		(4,500,000)
Long-term advances		(2,966,793)
Long-term payments received from component units		207,110
Long-term advances to employees		(110)
Transfers in	7,140	
Transfers out	(991,252)	(228,208)
Net cash used in noncapital and related financing activities	(984,112)	(7,488,001)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property and equipment	(346,648)	(749,292)
System improvements	(1,375,962)	
Cash outflow from payment of revenue bonds	(2,564,648)	
Net cash used in capital and related financing activities	(4,287,258)	(749,292)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	(954,556)	5,727,781
Investment income	91,887	863,153
Net cash provided by investing activities	(862,669)	6,590,934
Net increase (decrease) in cash, cash equivalents	(640,072)	35,332
Cash, cash equivalents, beginning of year	890,105	1,791,383
Cash, cash equivalents, end of year	\$ 250,033	\$ 1,826,715
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 3,825,463	\$ (64,028)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and capital adjustments	4,169,937	2,303,466
Receivables	(308,609)	(178,056)
Prepays	(2,536)	8,307
Due from other funds		(516,506)
Due from component units		(518,634)
Due from other governments	671,288	
Inventory	(285,324)	276,165
Accounts payable	(364,373)	(82,277)
Accrued payroll	(12,275)	(15,590)
Accrued compensated absences	18,067	(31,759)
Other liabilities	(1,494,418)	
Interest payable	(17,816)	
Insurance payable		332,662
Due to other funds	(705,437)	167,941
Net cash provided by (used in) operating activities	\$ 5,493,967	\$ 1,681,691

The notes to the financial statements are an integral part of this statement.

City of Southfield
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Pension (and Other Post-Employment Benefits) Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 2,548,224	\$ 1,383,914
Investments, at fair value:		
Government obligations	19,728,224	3,831,033
Corporate bonds	45,588,691	
Common stock	170,692,292	
Real estate and other	71,783,575	
Cash and investments held as collateral for securities lending - short term investments pools	33,754,603	
Total investments	341,547,385	3,831,033
Receivables, net	1,481,524	
Total assets	345,577,133	5,214,947
LIABILITIES		
Accounts payable	128,914	49,984
Obligations under securities lending agreements	33,754,603	
Deposits and escrow		4,092,058
Due to other governmental units		1,072,905
Total liabilities	33,883,517	5,214,947
NET ASSETS		
Held in trust for post-retirement benefits	\$ 311,693,616	\$ -

The notes to the financial statements are an integral part of this statement.

City of Southfield
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006

	Pension (and Other Post-Employment Benefits) Trust Funds
ADDITIONS	
Contributions:	
Plan members	\$ 895,275
Employer	9,209,347
Total contributions	<u>10,104,622</u>
Investment earnings:	
Net increase in fair value of investments	22,173,168
Interest	5,163,055
Dividends	2,319,868
Total investment earnings	<u>29,656,091</u>
Less investment expense:	1,071,180
Net investment earnings	<u>28,584,911</u>
Total additions	<u>38,689,533</u>
DEDUCTIONS	
Benefits	18,289,125
Health care expense	2,570,322
Administrative expense	582,671
Total deductions	<u>21,442,118</u>
Net increase	17,247,415
Net assets - beginning	<u>294,446,201</u>
Net assets - ending	<u><u>\$ 311,693,616</u></u>

The notes to the financial statements are an integral part of this statement.

City of Southfield
Statement of Net Assets
Discretely Presented Component Units
June 30, 2006

	Major Funds		Non-Major Funds				
	Local Development Finance Authority	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Re-development Authority	Joint Local Development Finance Authority	Downtown Development Authority	Totals
ASSETS							
Cash and cash equivalents	\$ 1,506,727	\$ 153,289	\$ 28,891	\$ 3,092	\$ 381,911	\$ 331,085	\$ 2,404,995
Investments		6,158,732	74,052			1,501,151	7,733,935
Receivables, net (Note 3B)	65,320	320,286	1,535	29,020	856	268,731	685,748
Prepays						1,365	1,365
Due from primary government	170,935	82,225				116,834	369,994
Total current assets	1,742,982	6,714,532	104,478	32,112	382,767	2,219,166	11,196,037
Leased equipment						9,978	9,978
Capital assets:							
Machinery and equipment						63,422	63,422
Less accumulated depreciation						(63,422)	(63,422)
Net capital assets	-	-	-	-	-	-	-
Total assets	1,742,982	6,714,532	104,478	32,112	382,767	2,229,144	11,206,015
LIABILITIES							
Accounts payable and other current liabilities		1,029	200	465		13,450	15,144
Due to primary government			3,147	11,000	14,006	178,417	206,570
Due to other governmental units		3,185,760					3,185,760
Unearned revenue (Note 3B)	12,688	62,240				51,352	126,280
Total current liabilities	12,688	3,249,029	3,347	11,465	14,006	243,219	3,533,754
Noncurrent liabilities: (Note 3D)							
Due within one year						71,213	71,213
Due in more than one year	4,940,592	478,290		3,619		894,717	6,317,218
Total liabilities	4,953,280	3,727,319	3,347	15,084	14,006	1,209,149	9,922,185
NET ASSETS							
Invested in capital assets, net of related debt						4,200	4,200
Unrestricted	(3,210,298)	2,987,213	101,131	17,028	368,761	1,015,795	1,279,630
Total net assets	\$ (3,210,298)	\$ 2,987,213	\$ 101,131	\$ 17,028	\$ 368,761	\$ 1,019,995	\$ 1,283,830

The notes to the financial statements are an integral part of this statement.

City of Southfield
Statement of Activities
Discretely Presented Component Units
For the Year Ended June 30, 2006

	Expenses	Program Revenues	Major Funds		Non-Major Funds				Totals	
			Net (Expense) Revenue and Changes in Net Assets							
			Local Development Finance Authority	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Re-development Authority	Joint Local Development Finance Authority	Downtown Development Authority		
			Charges for Services							
Major Funds										
Local Development Finance Authority										
Community improvement	\$ 872,396		\$ (872,396)						\$ (872,396)	
Tax Increment Finance Authority										
Community improvement	1,408,155			\$ (1,408,155)					(1,408,155)	
Non-Major Funds										
EDC										
Community improvement	58,145				\$ (58,145)				(58,145)	
Brownfield										
Community improvement	12,937					\$ (12,937)			(12,937)	
Joint										
Community improvement	14,006						\$ (14,006)		(14,006)	
DDA										
Community improvement	1,561,470	\$ 265,795						\$ (1,295,675)	(1,295,675)	
Total governmental component units	\$ 3,927,109	\$ 265,795	(872,396)	(1,408,155)	(58,145)	(12,937)	(14,006)	(1,295,675)	(3,661,314)	
General revenues:										
Property taxes			1,508,581	1,128,089			259,676	788,650	3,684,996	
Unrestricted investment earnings			29,634	167,609	3,858	86	5,891	54,488	261,566	
Miscellaneous			227,484			11,000		57,270	295,754	
Total general revenues and transfers			1,765,699	1,295,698	3,858	11,086	265,567	900,408	4,242,316	
Change in net assets										
Net assets - beginning			893,303	(112,457)	(54,287)	(1,851)	251,561	(395,267)	581,002	
Prior period adjustment			(4,161,024)	2,823,754	155,418	18,879	117,200	1,185,316	139,543	
Net assets - ending			57,423	275,916				229,946	563,285	
			\$ (3,210,298)	\$ 2,987,213	\$ 101,131	\$ 17,028	\$ 368,761	\$ 1,019,995	\$ 1,283,830	

The notes to the financial statements are an integral part of this statement.

CITY OF SOUTHFIELD

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Incorporation of city

The City of Southfield was incorporated on April 28, 1958, under the provisions of Act 279, P.A. 1909, as amended ("Home Rule City Act"). The City operates under a council/administrator form of government and provides the following services as authorized by its charter: public safety, public works, culture, recreation and community development.

The basic financial statements of the City of Southfield (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles and are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The City's more significant accounting policies are described below.

A. Reporting entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations given the level of financial interdependence with the City. Data from these units are combined with data of the City ("primary government"). Each discretely presented component unit, on the other hand, is legally separate with a board appointed by the City. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may or may not be financially accountable and, as such, has included them within the City's financial statements. In accordance with GASB Statement No. 14, the City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose a specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Data from these units is segregated from the primary government in the combined financial statements. Each blended and discretely presented component unit's financial information has been included based upon a June 30 year-end except for Southfield Non-profit Housing which numbers were based upon a December 31 year end.

Blended Component Units: The following component units have been blended into the City's basic financial statements:

- City of Southfield Library Building Authority
- City of Southfield Building Authority
- Southfield Employee Retirement System
- Fire and Police Retirement System
- Retiree Health Care & Benefits Trust

City of Southfield

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

A. Reporting entity (continued)

The Southfield Library Building Authority Board consists of 6 members appointed by City Council, thereby appointing a voting majority. In addition, the repayment of the Southfield Library Building Authority's bonds is financed through an operating millage for library operations. The Southfield Building Authority Board consists of 4 members appointed by City Council, and the City Administrator, thereby appointing a voting majority. The Building Authorities are reported as a Governmental Fund type. The Southfield Employee Retirement System Board consists of 3 members appointed by City Council, 1 member appointed by the Mayor, 2 members elected by active members and 1 member elected by retirees, thereby appointing a voting majority. The Southfield Fire and Police Retirement System Board consist of 2 members appointed by City Council, the City Treasurer, one member from elected active police rank and one member elected from the active fire ranks, thereby appointing a voting majority. The Retiree Health Care & Benefits Trust Board consists of 11 members. It is made up of the Fire and Police Retirement Board, Administrative Civil Service Commission, 2 general employee representatives and the City Administrator, thereby, the City appoints a voting majority. The Southfield Employee Retirement System, the Fire and Police Retirement System and the Retiree Health Care & Benefits Trust are reported as Fiduciary Fund types.

Discretely Presented Component Units: The Component Unit columns in the combined financial statements include the financial data of the City's other component units. The following component units are reported in separate columns to emphasize that they are legally separate from the City:

Downtown Development Authority
Economic Development Corporation
Tax Increment Finance Authority
Local Development Finance Authority
Brownfield Redevelopment Authority
Southfield Nonprofit Housing Corporation

Downtown Development Authority: The Downtown Development Authority has a 13-member board, appointed by the Mayor, committed to the economic development of the designated downtown district in and around the Northland Center. This Authority was formed under Public Act 1975, No. 197, and is funded through a 2-mill tax levy on all real and personal property within the district. The discretely presented component unit is reported as a governmental fund type.

Economic Development Corporation ("EDC"): The Economic Development Corporation ("EDC") was formed in February of 1980, in accordance with the State of Michigan Public Act 338 of 1974, for the purpose of stimulating economic activity in the City of Southfield. Industrial projects ultimately approved by the Economic Development Corporation are financed through the sale of Industrial Revenue Bonds. In addition, the EDC offers loans and participates in other economic development and rehabilitation programs. The discretely presented component unit is reported as a governmental fund type.

City of Southfield

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

A. Reporting entity (continued)

The Tax Increment Financing Authority: The Tax Increment Financing Authority ("TIFA") was organized pursuant to the State of Michigan, Public Act 450 of 1980. Its primary purpose is to finance and develop public improvements to promote growth and increase property tax valuation. Any new or additional assessed value in the development district is declared "captured assessed value." The property taxes collected thereon are transferred to the Authority as "tax increment revenues" and used to finance the development plan. The discretely presented component unit is reported as a governmental fund type.

Local Development Finance Authority: The Local Development Finance Authority ("LDFA") was organized on September 25, 1989 pursuant to the State of Michigan Public Act 281 of 1986. The LDFA is similar to the TIFA, but is restricted to industrial and manufacturing areas. The primary purpose of the Authority is to finance and develop public improvements to promote growth and increase property tax valuation. This purpose is accomplished by the Authority designing a development district and analyzing the property to determine the initial assessed value. Any new or additional assessed value, whether from new construction or increased market value, is declared "captured assessed value." The property taxes collected thereon are transferred to the Authority as "tax increment revenues" and used to finance the development plan. The discretely presented component unit is reported as a governmental fund type.

Brownfield Redevelopment Authority: The Brownfield Redevelopment Authority is a corporate public body, created by the State of Michigan under Public Act 381 of 1996, consisting of the serving members of the Local Development Financing Authority (LDFA). Its purpose is to promote the revitalization of environmentally distressed, blighted and functionally obsolete properties through the use of tax increment financing. The discretely presented component unit is reported as a governmental fund type.

The City assesses, collects and distributes property taxes for several school districts, including the Southfield Public Schools. These districts are not included in these financial statements because they are entities with independently elected Boards of Education who establish their own millage rates and are responsible for all financial control, including budgeting and operating surpluses and deficits.

Southfield Nonprofit Housing Corporation: The Corporation is organized as a nonprofit corporation formed on February 1, 1973, to provide housing for persons of low and moderate income in the City of Southfield. The City appoints a voting majority of the Corporation and is able to impose its will on the Corporation. The discretely presented component unit is reported as a Proprietary Fund type.

Complete financial statements can be obtained from the office of:

Tama, Budaj & Raab, P.C.
Certified Public Accountants
32783 Middlebelt Road
Farmington Hills, MI 48334-1726

City of Southfield

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

B. Basis of presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories: Invested in capital assets, net of related debt, restricted net assets and unrestricted net assets. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction or improvement of those assets. Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the Governmental Accounting Standards Board Statement 33.

The statement of net assets and the statement of activities display information about the City as a whole. The statements include all funds of the primary government and its component units, except for its fiduciary funds. Those funds are reported in the statements of fiduciary net assets and changes in fiduciary net assets.

The statement of net assets and the statement of activities are presented to distinguish between governmental and business type activities of the City. Governmental activities are financed through taxes, intergovernmental revenues and other non-exchange revenues. These activities are reported in governmental and internal service funds. For the most part, the effect of interfund activity has been removed from these statements. Business type activities are financed by fees charged to external parties for goods or services. These activities are reported in the City's enterprise funds.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Capital assets are reported in the government wide statements at historical cost. Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment and all other tangible or intangible assets that are used in operations and have initial useful lives beyond a single reporting period and cost over \$5,000. This is a new threshold for reporting capital assets implemented for June 30, 2006. Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets.

City of Southfield

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

B. Basis of presentation (continued)

Capital assets that are being depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not being depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the asset. Assets are depreciated on an individual basis for equipment and buildings.

GOVERNMENTAL FUNDS

The city reports the following major governmental funds:

GENERAL FUND: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

MAJOR STREET FUND: Major Streets include federal and state trunk lines maintained by the County and other relatively heavily traversed roads ("mile" roads) maintained by the City.

CAPITAL IMPROVEMENT FUND: The Capital Improvement Fund is the basic Capital Project Fund of the City, accounting for all major projects not specifically segregated by bond ordinance.

The city reports the following major proprietary fund:

ENTERPRISE FUND: The Enterprise Fund is used to account for (1) operations that are financed and operated in a manner similar to business enterprises - where the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, and (2) operations where the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Water and Sewer Fund: Water sales support the purchase of water from the Southeastern Oakland County Water Authority and the installation and maintenance of meters and mains throughout the City. Sewer disposal charges to customers pay for treatment of sewerage and fund installation and maintenance of sanitary sewers in the EVERGREEN area (west of Southfield Road) and of combined sanitary and storm sewers on the "SEOCSDS" area (east of Southfield Road).

Additionally, the city reports the following fund types:

Associated Governmental Funds

Internal Service Funds: Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. These funds include Facilities Maintenance, Motor Pool, Equipment Revolving, Insurance Risk Retention, Local Improvement Revolving and the Employee Incentive Loan Program.

Generally accepted accounting principles for the associated governmental funds are similar to those applicable to a business enterprise in the private sector.

City of Southfield

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

B. Basis of presentation (continued)

Fiduciary Funds

Trust and Agency Funds: Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds include Pension Trust Agency. Expendable Trust funds are accounted for and reported as Governmental Funds.

TRUST

Pension Trust: These funds account for employee and employer pension contributions, accumulated assets, administrative expenses, investment income and payments to beneficiaries. The funds include the Employee Retirement and the Fire & Police.

Retiree Health Care Benefits Plan & Trust: This fund accounts for employer post retirement health care contributions, accumulated assets, administrative expenses and investment income. Payments for beneficiaries are not anticipated until the reserves for post retirement health care benefits have been depleted in the pension trusts.

AGENCY

Deposits and Escrow: This fund is for builders' cash bonds and similar escrow deposits.

Imprest Payroll: This fund is a clearing-account for payroll disbursements which is replenished from other funds.

46th District Court: The district court operates in an agency capacity and collects fine and fee revenues and distributes them to the appropriate governmental unit or agency. The City is the District Control Unit for the district court, and it provides all facilities, services and payroll expenses required for the proper functioning of the district court.

C. Basis of accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected within 60 days after year end to pay liabilities of the current period. Significant revenues susceptible to accrual include reimbursement grants, state shared revenues and charges for services.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred provided the liability normally would be liquidated with expendable available financial resources. The major exception to this general rule is principal and interest on long-term debt which is recognized when due and paid.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus. This means that generally only current assets and current liabilities are included on their balance

City of Southfield

Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

C. Basis of accounting (continued)

sheets. Their reported fund balance (net current assets) is considered a measure of “available, spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

All proprietary funds and the pension trust funds are accounted for on a cost of services or “economic resources” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Proprietary and Pension Trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Assets, liabilities, and equity

(a) Investments: The City’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value, based on quoted market prices. Investments and certificates of deposit are purchased with pooled cash and are generally held to maturity. Interest is allocated on the basis of time-and-dollar weighted participation in each pool.

(b) Interfund receivables/payables: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term receivables and payables resulting from such transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet. Any residual balances between the government activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a reservation of fund balance.

(c) Inventories: Inventories are stated at a first-in, first-out cost method and are accounted for using the purchasing method except for certain items used in the governmental and proprietary funds such as sign shop inventory which are accounted for on the consumption method.

(d) Capital Assets: Capital assets which include property and equipment are stated at historical cost or, if donated, fair market value at the date of donation. Expenditures which materially extend the useful life of existing properties are capitalized. All costs relating to the construction of facilities are capitalized, including salaries, employee benefits and bond interest costs. Certain governmental improvements, including roads, bridges, storm sewers and sidewalks are not capitalized. Drain usage rights are capitalized assets relating to City drains that are maintained by Oakland County. In accordance with GASB 34 the City has elected to defer the infrastructure portion of the pronouncement.

Depreciation is recorded for property and equipment using the straight-line method over the estimated useful lives of the related assets.

City of Southfield

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

D. Assets, liabilities, and equity (continued)

The estimated useful lives are:

Land improvements	10-50 years
Buildings and improvements	10-50 years
Infrastructure	5-30 years
Intangibles	10-50 years
Drain Usage rights	50 years
Equipment	2-10 years
Water mains	50 years

Depreciation of property and equipment contributed by entities independent of the City (such as construction contractors) is charged to fund operations.

(e) Compensated Absences: The City recognizes expenditures and liabilities in Governmental Funds for the accrued vacation and sick pay as it comes due for payment (when the time is taken off or an employee terminates). The remaining amount of the unpaid vacation and sick pay liability has been recognized in the Statement of Net Assets as non-current liabilities. The Proprietary Funds accrue all unpaid vacation and sick pay as it is earned and has been accrued therein in its entirety.

(f) Fund equity: In the financial statements, governmental funds report reservations of fund equity not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

2. COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data: The preparation of the budget begins in October with the establishment of written goals and parameters through the City Administrator's Office and the distribution of budget instructions by the Office of Management and Budget. The remaining steps and deadlines are strictly outlined in the City Charter:

- On or before March 1 – Each department head must submit a departmental budget to the City Administrator.
- On or before April 1- the Administrator shall submit the budget to the Mayor.
- On or before the first regular Council meeting in May - the Mayor shall submit the budget to Council.
- Not later than the third week in June - the Council shall adopt a budget by an affirmative vote of at least five members, at a Special Budget Meeting called for such purposes.
- The City's fiscal year begins July 1.
- The public is kept well informed throughout the budget process through the issuance of press releases, availability of budget documents at both the City Clerk's Office and Southfield Public Library at various stages in the formulation process, and creation of a budget summary videotape which plays periodically on the City's cable television station. Citizens are encouraged to actively participate in all public hearings.

City of Southfield

Notes to Financial Statements

2. COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data (continued)

- The individual department head is authorized to transfer budgeted amounts within the respective appropriation unit (e.g., Treasurer's Office), unless the transfer involves personnel or capital line items, in which case, the approval of the Director of Financial Services or the City Administrator is also required. However, any revisions that alter an appropriation unit's total budget must be approved by City Council. Such budget adjustments took place, as authorized by the City Council, for the year ended June 30, 2006, and the budgetary data reflects the effect of those amendments.
- Appropriations for the fiscal year lapse every June 30. Council may re-appropriate any amount at its discretion.
- Budgets are legally adopted on an activity basis for the General and Special Revenue Funds. These budgets are presented on the same basis of accounting as used for actual results. They are adopted by Council on a non-GAAP basis. A note reconciling the adopted budget to the presented budget is disclosed in Note 3 E. Capital Projects and Debt Service Funds are approved by City Council on a project length basis, with annual expenditures included within Governmental Fund appropriation units. Budgets and actual comparisons are not reported in the Financial Statements for those funds where no annual budgets are prepared.
- These non-major governmental funds require an annual budget:

Local street fund	Section 8 Housing
Municipal street fund	Drug law enforcement fund
Parks & Recreation fund	Library fund
Cable television fund	Michigan works fund
Block grant fund	Auto theft grant fund

B. Individual Fund and Component Unit Disclosures

The following individual funds have an accumulated deficit at June 30, 2006:

Special Revenue Fund

Michigan Works Grant Fund	(306,060)
---------------------------	-----------

Capital Projects Fund

Special Assessment Construction Fund	(635,602)
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The deficit in the Michigan Works Grant Fund reflects the fact that this fund operates on a reimbursement basis. The City pays the original expenditures and is reimbursed by Oakland County. Reimbursement for expenditures may lag by two or three months.

The deficit in the Special Assessment Construction Fund arises from expenditures made on sidewalk projects which are funded with a long term advance from the Local Improvement Revolving Fund. Special assessment advances are normally repaid within 10 years.

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 180 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension and other post-employment benefits trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$100 million), debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles.

The City has designated 10 banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 is in accordance with statutory authority; however, the City employs a more conservative investment policy and invests only in the highest rated commercial paper. The City participates only with qualified banks and primary investment firms that adhere to the specific guidelines established by industry practice for repurchase agreements. Guidelines require that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement.

The Southfield Employees Retirement System (SERS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 is in accordance with statutory authority. Various professional investment managers are contracted to assist in the managing of these funds' assets.

The Southfield Fire and Police Retirement System (SFPRS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 is in accordance with statutory authority. Various professional investment managers are contracted to assist in the managing of these funds' assets.

The Southfield Retiree Health Care & Benefits Trust System (SHCBTS) has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 is in accordance with statutory authority. Various professional investment managers are contracted to assist in the managing of these funds' assets.

The City, pension funds, and other post-employment benefits trust funds' cash and investments are subject to several types of risk, which are examined in more detail below:

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments (continued)

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

City - The City's investment policy requires all investment transactions be conducted on a delivery versus payment basis. All securities, evidenced by a safekeeping receipt, shall be held by a third party custodian. At year end, the City had \$11,867,338 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

SERS – The SERS investment policy does not have a deposit policy for custodial credit risk. At year end, the SERS had no bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized.

SFPRS – The SFPRS investment policy does not have a deposit policy for custodial credit risk. At year end, the SFPRS had no bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized.

SHCBTS – The SHCBTS investment policy does not have a deposit policy for custodial credit risk. At year end, the SHCBTS had no bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized.

Interest rate risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

City - The City's investment policy restricts investment maturities from exceeding five years from the date of trade settlement unless authorized by council or to meet a specific cash flow requirement. In addition, commercial paper can only be purchased with an original maturity of 180 days or less. At year end, the average maturities of investments are as follows:

Investments:	Fair Market Value	Weighted Average Maturity
U.S. government agencies	\$ 57,925,803	1.95 years
Commercial paper	1,998,220	7 days

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments (continued)

SERS – The SERS investment policy does not restrict investment maturities. At year end, the weighted average maturities of investments are as follows:

Investments:	Fair Market Value	Weighted Average Maturity
U.S. government obligations	\$ 7,373,880	10.27 years
Mortgage backed securities	7,323,954	27.44 years
Corporate bonds	4,396,007	6.06 years
U.S. government agencies	2,350,205	2.22 years
Collateralized mortgage obligations	391,693	13.85 years
Asset backed securities	241,938	27.90 years

SFPRS – The SFPRS investment policy does not restrict investment maturities. At year end, the weighted average maturities of investments are as follows:

Investments:	Fair Market Value	Weighted Average Maturity
Corporate bonds	\$ 6,877,854	5.90 years
U.S. government agencies	5,094,293	6.36 years
U.S. government mortgage backed securities	2,529,750	4.77 years
Municipal bonds	290,042	1.17 years

SHCBTS – The SHCBTS investment policy does not restrict investment maturities. At year end, the weighted average maturity of investments was as follows:

Investments:	Fair Market Value	Weighted Average Maturity
Bond index fund	\$ 2,012,450	7.03 years

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments (continued)

Credit risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

City – The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government securities	\$ 57,925,803	AAA	Standard & Poor's (S&P)
Bank investment pool	14,876,028	A1	S&P
Commercial paper	1,998,220	A-1+	S&P

SERS – The SERS has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. government obligations	\$ 6,740,408	AAA	S&P
U.S. government agencies	2,350,205	AAA	S&P
Corporate bonds	245,435	AA	S&P
Corporate bonds	784,343	AA-	S&P
Corporate bonds	888,522	A+	S&P
Corporate bonds	1,302,913	A	S&P
Bank investment pool	854,424	A1	S&P
Corporate bonds	1,174,793	A-	S&P
Collateralized mortgage obligations	391,693	Not Rated	N/A
Mortgage backed securities	7,323,954	Not Rated	N/A
U.S. government obligations	633,472	Not Rated	N/A
Asset backed securities	241,938	Not Rated	N/A

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments (continued)

SFPRS – The SFPRS has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 545,756	AAA	S&P
Corporate convertible bonds	209,687	AAA	S&P
U.S. government agencies	1,102,843	AAA	S&P
Municipal bonds	290,042	AAA	S&P
Corporate convertible bonds	461,119	AA	S&P
Corporate bonds	1,528,443	AA-	S&P
Corporate convertible bonds	1,008,631	AA-	S&P
U.S. government agencies	501,325	AA-	S&P
Corporate bonds	1,269,393	A+	S&P
Corporate convertible bonds	1,426,364	A+	S&P
Corporate bonds	2,372,912	A	S&P
Corporate convertible bonds	970,875	A	S&P
Corporate bonds	290,805	A-	S&P
Corporate convertible bonds	1,049,125	A-	S&P
Corporate convertible bonds	931,869	BBB+	S&P
Corporate bonds	157,533	BBB	S&P
Corporate convertible bonds	2,004,844	BBB	S&P
Corporate bonds	258,534	BB	S&P
Corporate bonds	454,478	B+	S&P
U.S. government agencies	3,490,126	AGY	S&P
U.S. govt. mortgage backed sec	2,529,751	AGY	S&P
Corporate bonds	25,436,090	Not Rated	N/A
Corporate convertible bonds	1,448,878	Not Rated	N/A
Short-term investment funds	3,600,473	Not Rated	N/A

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments (continued)

SHCBTS – The SHCBTS has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bond index fund	\$ 2,012,450	AA1	S&P

Concentration of credit risk:

City - The City places a 25% limit on the amount they may invest in any one issuer. Not more than 5 percent of the city's investments were in a single issuer (other than the U. S. government).

SERS - The SERS places no limit on the amount they may invest in any one issuer. More than 5 percent of the SERS investments are in mortgage backed securities issued by FNMA; these investments are 6.35% of the SERS total investments.

SFPRS – The SFPRS places a 10% limit on the amount they may invest in any one issuer. More than 5 percent of the SFPRS investments are in the following:

Issuer	Fair Market Value	% of Total Market Value
NTGI	\$ 34,403,690	16.282%
Morgan Stanley Instl Fd Inc	21,316,462	10.088%
Western Asset Fds Inc	20,582,424	9.741%

SHCBTS – The SHCBTS places no limit on the amount they may invest in any one issuer. There is no concentration of credit risk to disclose.

Foreign currency risk:

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U. S. dollar value, as a result of changes in foreign currency exchange rates.

City – The City does not have any securities subject to foreign currency risk.

SERS –The SERS does not restrict the amount of investments in foreign currency. The following securities are subject to foreign currency risk:

Security	Foreign Currency	Fair Value
Foreign stocks	Singapore dollars	\$ 382,320

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments (continued)

SFPRS – The SFPRS does not restrict the amount of investments in foreign currency. The following securities are subject to foreign currency risk:

<u>Security</u>	<u>Foreign Currency</u>	<u>Fair Value</u>
Foreign stocks	Singapore dollars	\$ 318,866
Foreign stocks	Netherlands guilders	321,195
Foreign stocks	Korean won	4,230,184
Foreign stocks	Swiss franc	724,140
Foreign stocks	UK pound sterling	17,086,278
Corporate bonds	Bermuda dollars	144,937
Corporate bonds	Netherlands guilders	372,225

SHCBTS – The SHCBTS does not have any securities subject to foreign currency risk.

Securities lending

SERS – As permitted by state statutes and under the provisions of a securities lending authorization agreement, the SERS lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The SERS's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2006, only United States currency was received as collateral.

The SERS did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The SERS and the borrower maintain the right to terminate all securities lending transactions on demand. On June 30, 2006, the SERS had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the SERS as of June 30, 2006 was \$13,204,475 and \$12,798,334, respectively.

SFPRS – As permitted by state statutes and under the provisions of a securities lending authorization agreement, the SFPRS lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The SFPRS's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2006, only United States currency was received as collateral.

The SFPRS did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Investments (continued)

The SFPRS and the borrower maintain the right to terminate all securities lending transactions on demand. On June 30, 2006, the SFPRS had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the SFPRS as of June 30, 2006 was \$20,550,128 and \$20,202,730, respectively.

Restricted Assets

The following is the detail of the governmental type activities (includes associated governmental funds) restricted assets at June 30, 2006:

Major governmental fund:

Capital Projects:

Funds held by Oakland County Drain Commissioner to be used for construction and maintenance of drains

\$ 671,289

Governmental funds (with associated governmental funds):

Capital Projects:

Funds held from bond proceeds for continuing road construction projects

3,699,633

Funds held for historic site preservation

14,463

\$ 3,714,096

Internal Service:

Funds on deposit held by the insurance carrier related to workers' comp

\$ 1,156,730

Total restricted assets

\$ 5,542,115

City of Southfield
Notes to Financial Statements
3. DETAILED NOTES ON ALL FUNDS
B. Receivables and Deferred Revenue

The major components of receivables reported on the Balance Sheet as of June 30, 2006 were as follows:

	Special assessments	Accrued interest	Accounts	Other Accrued revenue	Delinquent taxes	Total
Governmental activities:						
General fund		\$ 157,301	\$ 413,005	\$ 3,841,984	\$ 4,972,481	\$ 9,227,470
Major street		12,518	2,959	662,124		665,083
Capital improvement		637,216		-		-
Other Non-major funds	\$ 1,098,935	199,733	187,707	964,170	495,422	1,647,299
Associated governmental activities:						
Internal Service funds		162,924		22,038		22,038
Total governmental activities	\$ 1,098,935	\$ 1,169,692	\$ 603,671	\$ 5,490,316	\$ 5,467,903	\$ 11,561,890
Component units-governmental:						
Local development finance authority		\$ 3,378			\$ 61,942	\$ 65,320
Economic development authority		935	\$ 600			1,535
Brownfield re-development authority		3	29,017			29,020
Joint local development finance authority		856				856
Downtown development authority	\$ 237,181	13,590		\$ 17,960		268,731
Tax increment finance authority		44,671			275,615	320,286
Total governmental component units	\$ 237,181	\$ 63,433	\$ 29,617	\$ 17,960	\$ 337,557	\$ 685,748
Component units-proprietary						
Southfield non-profit housing			\$ 73,004			\$ 73,004
Business-type activities:						
Water fund		\$ 21,469	\$ 10,096,262			\$ 10,117,731
Total business-type activities		\$ 21,469	\$ 10,096,262			\$ 10,117,731

The only receivable not expected to be collected within one year is the delinquent taxes.

The major components of deferred revenues reported on the Balance Sheet as of June 30, 2006 were as follows:

	Taxes Unavailable	Taxes Unearned	Grants Unavailable	Special assessments Unavailable	Total
Governmental activities:					
General fund	\$ 784,463	\$ 149,421			\$ 933,884
Capital improvement			\$ 622,542		622,542
Other Non-major funds	556,068	105,918	1,049,816	\$ 1,098,935	2,810,737
Total governmental activities	\$ 1,340,531	\$ 255,339	\$ 1,672,358	\$ 1,098,935	\$ 4,367,163
Component units-governmental:					
Local development finance authority	\$ 66,612	\$ 12,688			\$ 79,300
Tax increment finance authority	326,759	62,240			388,999
Downtown development authority	269,596	51,352			320,948
Total governmental component units	\$ 662,967	\$ 126,280	\$ -	\$ -	\$ 789,247

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

C. Capital assets

A summary of governmental property and equipment at June 30, 2006, follows:

	Balance	Change in	Prior period			Balance
	July 1, 2005	threshold	adjustment	Additions	Disposals	June 30, 2006
		adjustment				
GOVERNMENTAL ACTIVITIES						
General						
Capital assets, not being depreciated:						
Land	\$ 11,990,726	(21,687)	(1,460,448)			\$ 10,508,591
Construction in progress	568,359			840,610		1,408,969
Total capital assets not being depreciated	12,559,085	(21,687)	(1,460,448)	840,610	-	11,917,560
Capital assets, being depreciated						
Land improvements	8,650,926	(217,944)	7,843,325	2,238,531		18,514,838
Building and improvements	82,759,967	(445,364)	(20,987,762)	1,091,191		62,418,032
Infrastructure			7,572,364	9,448,006		17,020,370
Intangible			1,414,797	516,646		1,931,443
Drain usage rights	1,630,097					1,630,097
Equipment	13,845,805	(3,510,073)	(4,664,607)	1,012,020		6,683,145
Total capital assets being depreciated	106,886,795	(4,173,381)	(8,821,883)	14,306,394	-	108,197,925
Less accumulated depreciation	27,489,098	(2,679,884)	1,977,208	2,313,047	(a)	29,099,469
Total general capital assets being depreciated, net	79,397,697	(1,493,497)	(10,799,091)	11,993,347		79,098,456
Internal Service						
Capital assets, being depreciated						
Intangible		(6,551,731)	175,248	50,636		(6,325,847)
Equipment	24,418,759		3,909,924	698,660	357,922	28,669,421
Total capital assets being depreciated	24,418,759	(6,551,731)	4,085,172	749,296	357,922	22,343,577
Less accumulated depreciation	17,479,161	(5,711,206)	4,578,432	1,462,939	348,908	17,460,411
Total internal service capital assets being depreciated, net	6,939,598	(840,525)	(493,260)	(713,643)	9,014	4,883,159
Governmental activity capital assets depreciable, net	\$ 86,337,295	(2,334,022)	(11,292,351)	11,279,704	9,014	\$ 83,981,611

(a) Depreciation expense was charged to governmental activities as follows:

General	
General government	\$ 929,098
Public safety	48,829
Highways and streets	658,612
Public services	233,453
Culture and recreation	443,056
Total	\$ 2,313,047

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

C. Capital assets (continued)

A summary of business-type property and equipment at June 30, 2006, follows:

	Balance July 1, 2005	Change in threshold adjustment	Prior period adjustment	Additions	Disposals	Balance June 30, 2006
Water and Sewer Fund						
Equipment and Vehicles	\$ 1,245,415	(171,058)	(322,639)	18,582		\$ 770,300
Intangible			1,135,435	328,066		1,463,501
Infrastructure	112,896,185	(892,955)	(1,061,074)	897,707		111,839,863
Construction in progress	389,494		(389,493)	478,255		478,256
Total	114,531,094	(1,064,013)	(637,771)	1,722,610	-	114,551,920
Less: Accumulated Depreciation	29,279,862	(768,092)	7,788,401	3,874,014		40,174,185
Total Capital Assets	\$ 85,251,232	(295,921)	(8,426,172)	(2,151,404)	-	\$ 74,377,735

A summary of discretely presented component unit property and equipment at June 30, 2006, follows:

	Balance July 1, 2005	Change in threshold adjustment	Prior period adjustment	Additions	Disposals	Balance June 30, 2006
DDA						
Infrastructure	\$ 664,389		(664,389)			-
Equipment and Vehicles	82,794	(19,373)				\$ 63,421
Total	747,183	(19,373)	(664,389)	-	-	63,421
Less: Accumulated Depreciation	281,792	(15,346)	(203,025)			63,421
Total Capital Assets	\$ 465,391	(4,027)	(461,364)	-	-	\$ -

Construction and other significant commitments

At year end the City's commitments with contractors are as follows:

	Commitments
Street construction	\$ 1,637,995
Land improvements	2,721,348
Technology enhancements	1,484,753
Public safety equipment	155,275
Water system improvements	570,356
	\$ 6,569,727

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

D. Long-Term Debt and Other Obligations

The city issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both the governmental and business-type activities. For purposes of this exhibit, the portion of debt due within a year is included in the total.

	July 1, 2005	Additions	Deductions	June 30, 2006	Short-term	Long-term
GOVERNMENTAL ACTIVITIES						
General obligation debt						
1.625% to 5.375 % Drains-at-large,						
City's share of county debt	\$ 10,049,184	121,300	426,196	9,744,288	441,241	9,303,047
4.75% to 5.5% Library Building Authority General						
Obligation Limited Tax	29,680,000		450,000	29,230,000	410,000	28,820,000
2.5% to 4.5% - 2003 General Obligation Limited Tax	4,900,000			4,900,000	215,000	4,685,000
3.25% to 4.0% Michigan Transportation Fund bonds	12,500,000			12,500,000	350,000	12,150,000
Unamortized discounts on bonds	(102,923)	6,373		(96,550)		(96,550)
Total general obligation debt	57,026,261	127,673	876,196	56,277,738	1,416,241	54,861,497
Other long-term obligations						
Installment purchase agreement	1,456,652		274,459	1,182,193	282,592	899,601
Compensated absences	8,168,706	896,110	1,043,712	8,021,104		8,021,104
Michigan tax tribunal contingency		3,137,989		3,137,989		3,137,989
ASSOCIATED GOVERNMENTAL ACTIVITIES						
Other long-term obligations						
Compensated absences	346,380	62,708	94,467	314,621		314,621
Total governmental long-term debt	\$ 66,997,999	4,224,480	2,288,834	68,933,645	1,698,833	67,234,812
BUSINESS-TYPE ACTIVITIES						
General obligation debt						
State of Michigan water supply and sewage						
disposal revenue bonds series 1999						
(LTGO) 2.25 to 2.5 %	\$ 31,813,789		1,650,000	30,163,789	1,685,000	28,478,789
3.05 % to 6.5 % Evergreen/Farmington sewer disposal						
system bonds, City's share of county debt	4,720,597		914,648	3,805,949	906,564	2,899,385
Other long-term obligations						
Long-term advances	600,000			600,000		600,000
Compensated absences	208,921	76,449	58,382	226,988		226,988
Total business-type long-term debt	37,343,307	76,449	2,623,030	34,796,726	2,591,564	32,205,162
COMPONENT UNIT ACTIVITIES						
General obligation debt						
7.6 % to 8.5 % mortgage payable nonprofit						
nonprofit housing corporation	12,633,868		458,505	12,175,363	496,379	11,678,984
Long-term advances	412,283		71,691	340,592	76,711	263,881
Total non-profit housing long-term debt	13,046,151	-	530,196	12,515,955	573,090	11,942,865
Other long-term obligations						
Long-term advances	5,479,900	18,601	776,344	4,722,157	67,013	4,655,144
Capital lease	699	13,478	4,199	9,978	4,200	5,778
Compensated absences	75,803	37,379	32,474	80,708		80,708
Michigan tax tribunal contingency		953,261		953,261		953,261
Total governmental component units	5,556,402	1,022,719	813,017	5,766,104	71,213	5,694,891
long-term debt	5,556,402	1,022,719	813,017	5,766,104	71,213	5,694,891
Total debt	\$ 122,943,859	5,323,648	6,255,077	122,012,430	4,934,700	117,077,730

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

D. Long-Term Debt and Other Obligations (continued)

The City has pledged its full faith and credit for the bonded indebtedness of the City of Southfield Building Authority, Southfield Library Building Authority, Tax Increment Finance Authority and Local Development Finance Authority.

The Economic Development Corporation ("EDC") has issued revenue bonds collateralized by a promissory note from certain commercial enterprises receiving the proceeds of the bonds. Since the EDC has assigned its interest in the notes receivable to the trustees of the revenue bonds, and since the revenue bonds are not an obligation of the City, the revenue bonds and related notes receivable have not been reflected in the combined financial statements of the City.

By statute, the City's general obligation and component unit debt in the aggregate is restricted to 10% of the state equalized value of all property within the City. The City's special assessment debt is restricted to 12%. The City currently has no outstanding special assessment debt. For the current year, the state equalized value of the property within the City was \$4,238,374,977. The City has issued and outstanding \$56,277,738 of general obligation bonds, subject to a limit of \$423,837,498.

The annual requirements (excluding the other long-term obligations) to pay principal and to pay interest on debt outstanding at June 30, 2005 (in thousands of dollars) are as follows:

	Governmental activities			Business-type Water & Sewer			Nonprofit Housing Corporation		
	Prin.	Int.	Total	Prin.	Int.	Total	Prin.	Int.	Total
2006							\$ 477	\$ 831	\$ 1,308
2007	\$ 1,416	\$ 2,382	\$ 3,799	\$ 2,592	\$ 875	\$ 3,466	516	792	1,308
2008	1,820	2,336	4,155	2,796	812	3,608	559	749	1,308
2009	1,935	2,273	4,208	2,919	721	3,640	605	703	1,308
2010	2,061	2,204	4,265	2,383	623	3,006	655	653	1,308
2011	2,197	2,127	4,324	2,011	565	2,576	709	599	1,308
2012	2,331	2,051	4,382	1,920	516	2,436	768	540	1,308
2013	2,484	1,967	4,450	1,960	469	2,429	831	477	1,308
2014	2,641	1,874	4,515	2,015	422	2,437	900	408	1,308
2015	2,802	1,776	4,579	2,065	373	2,438	984	229	1,213
2016	2,967	1,662	4,629	2,120	323	2,443	956	(26)	930
2017	3,140	1,541	4,681	2,170	272	2,442	751	179	930
2018	3,343	1,407	4,750	2,225	220	2,445	817	112	929
2019	3,531	1,274	4,805	2,267	166	2,433	635	(271)	364
2020	3,724	1,120	4,843	2,215	111	2,326	233	(3)	230
2021	2,642	960	3,601	1,565	58	1,623	1,780	461	2,241
2022	2,714	838	3,552	747	19	765			
2023	2,619	713	3,332						
2024	2,136	590	2,726						
2025	1,672	493	2,165						
2026	1,662	410	2,072						
2027	1,650	327	1,977						
2028	1,640	244	1,884						
2029	1,630	162	1,792						
2030	1,620	76	1,696						
Total	\$ 56,374	\$ 30,808	\$ 87,182	\$ 33,970	\$ 6,545	\$ 40,515	\$ 12,176	\$ 6,433	\$ 18,609

* Payments due after 12/31/05

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

D. Long-Term Debt and Other Obligations (continued)

Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2007, the City's portion of bonds outstanding that is considered defeased approximates \$17,530,000 for governmental activities and \$8,110,000 for component units.

E. Reconciliation of the Adopted Budget to Final Presentation

While the City doesn't adopt budgets in accordance with GAAP, the Schedule of Revenues, Expenditures, and changes in Fund Balances-Budget and Actual presented in this CAFR have been modified to meet GAAP standards. The following note reconciles the Council adopted budget with these schedules. The major modifications are derived from transfers, expenditure reimbursements and Fund Balance draws being budgeted as revenues and expenditures.

	MAJOR FUNDS			
	General Fund		Major Street	
	Approved Revenues	Approved Expenditures	Approved Revenues	Approved Expenditures
Council adopted budget	\$ 67,308,436	\$ 67,308,436	\$ 5,571,302	\$ 5,571,302
Transfers	(182,790)	(925,080)	(1,019,579)	
Reimbursements	(2,879,009)	(2,879,009)	(232,675)	(232,675)
Fund balance draws	(2,058,378)			
Original (as presented)	<u>62,188,259</u>	<u>63,504,347</u>	<u>4,319,048</u>	<u>5,338,627</u>
Approved encumbrances		306,996		11,873,242
Council adjustments	12,500	(8,269)		
Final (as presented)	<u>\$ 62,200,759</u>	<u>\$ 63,803,074</u>	<u>\$ 4,319,048</u>	<u>\$ 17,211,869</u>

City of Southfield

Notes to Financial Statements

DETAILED NOTES ON ALL FUNDS

E. Reconciliation of the Adopted Budget to Final Presentation (continued)

NON-MAJOR FUNDS				
	Local Street		Municipal Street	
	Approved Revenues	Approved Expenditures	Approved Revenues	Approved Expenditures
Council adopted budget	\$ 5,358,019	\$ 5,358,019	\$ 1,446,617	\$ 1,446,617
Transfers	(642,676)			(1,412,845)
Reimbursements	(155,925)	(155,925)		
Approved encumbrances		671,719		
Council adjustments				103,022
Final (as presented)	<u>\$ 4,559,418</u>	<u>\$ 5,873,813</u>	<u>\$ 1,446,617</u>	<u>\$ 136,794</u>
	Parks & Recreation		Cable	
	Approved Revenues	Approved Expenditures	Approved Revenues	Approved Expenditures
Council adopted budget	\$ 8,623,126	\$ 8,623,126	\$ 952,000	\$ 952,000
Transfers		(303,206)		(17,630)
Reimbursements	(92,190)	(92,190)		
Fund balance draws			(149,000)	
Approved encumbrances		102,403		2,851
Final (as presented)	<u>\$ 8,530,936</u>	<u>\$ 8,330,133</u>	<u>\$ 803,000</u>	<u>\$ 937,221</u>
	CDBG		Section 8	
	Approved Revenues	Approved Expenditures	Approved Revenues	Approved Expenditures
Council adopted budget	\$ 592,869	\$ 592,869	\$ 1,078,774	\$ 1,078,774
Transfers				(12,200)
Final (as presented)	<u>\$ 592,869</u>	<u>\$ 592,869</u>	<u>\$ 1,078,774</u>	<u>\$ 1,066,574</u>
	Drug Law		Library	
	Approved Revenues	Approved Expenditures	Approved Revenues	Approved Expenditures
Council adopted budget	\$ 351,510	\$ 351,510	\$ 7,867,878	\$ 7,867,878
Transfers				(1,830,991)
Fund balance draws	(110,510)			
Approved encumbrances		2,163		29,400
Final (as presented)	<u>\$ 241,000</u>	<u>\$ 353,673</u>	<u>\$ 7,867,878</u>	<u>\$ 6,066,287</u>
	Michigan Works		Auto theft	
	Approved Revenues	Approved Expenditures	Approved Revenues	Approved Expenditures
Council adopted budget	\$ 1,661,397	\$ 1,661,397	\$ 250,295	\$ 250,295
Transfers		(71,927)	(59,911)	
Final (as presented)	<u>\$ 1,661,397</u>	<u>\$ 1,589,470</u>	<u>\$ 190,384</u>	<u>\$ 250,295</u>

City of Southfield
Notes to Financial Statements
3. DETAILED NOTES ON ALL FUNDS
F. Interfund balances and transfers

Interfund receivable and payable balances related to the governmental & associated governmental funds at June 30, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
GOVERNMENTAL FUNDS			GOVERNMENTAL FUNDS		
Major Funds			Major Funds		
General Fund	Major Streets	\$ 1,817,532	General Fund	Capital Improvement	\$ 930,729
	Non-Major Funds	1,090,802		Non-Major Funds	1,663,770
	Internal service	14,291		Internal service	7,199,565
	Water and Sewer Fund	1,033,485		Total General Fund	9,794,064
	Total General Fund	3,956,110			
Major Streets	Non-Major Funds	238,599	Major Streets	General Fund	1,817,532
	Water and Sewer Fund	4,003		Capital Improvement	9,165
	Total Major Streets	242,602		Non-Major Funds	182,755
				Internal service	785,063
				Total Major Streets	2,794,515
Capital Improvement	General Fund	930,729	Non-Major Funds	General Fund	1,090,802
	Major Streets	9,165		Major Streets	238,599
	Non-Major Funds	34,797		Capital Improvement	34,797
	Internal service	666,489		Non-Major Funds	89,049
	Water and Sewer Fund	60,104		Internal service	394,651
	Total Capital Improvement	1,701,284		Total Non-Major funds	1,847,898
Non-Major Funds	General Fund	1,663,770	TOTAL GOVERNMENTAL FUNDS	\$ 14,436,477	
	Major Streets	182,755			
	Non-Major Funds	89,049	ASSOCIATED GOVERNMENTAL ACTIVITY		
	Internal service	213,487	Internal Service Funds	General Fund	14,291
	Water and Sewer Fund	19,874		Capital Improvement	666,489
	Total Non-Major	2,168,935		Non-Major Funds	213,487
TOTAL GOVERNMENTAL FUNDS		\$ 8,068,931		Internal service	15,046
				Total Internal Service	\$ 909,313
ASSOCIATED GOVERNMENTAL ACTIVITY			BUSINESS-TYPE FUND		
Internal Service Funds	General Fund	7,199,565	Water and Sewer Fund	General Fund	1,033,485
	Major Streets	785,063		Major Streets	4,003
	Non-Major Funds	394,651		Capital Improvement	60,104
	Internal service	15,046		Non-Major Funds	19,874
	Water and Sewer Fund	78,984		Internal service	78,984
	Total Internal Service	\$ 8,473,309		Total Water and Sewer	\$ 1,196,450

City of Southfield

Notes to Financial Statements

3. DETAILED NOTES ON ALL FUNDS

F. Interfund balances and transfers (continued)

The above interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. All interfund balances are expected to be collected within one year.

Interfund transfer revenues and expenditures related to the governmental & associated governmental funds at June 30, 2006 are as follows:

Transfers Out:	Transfers In:					Total
	General fund	Major street	Capital improvement	Nonmajor governmental funds	Enterprise	
Governmental activities:						
General fund			\$ 848,029	\$ 425,369	\$ 7,140	\$ 1,280,538
Other Non-major funds	\$ 62,200	\$ 9,651,304	433,291	2,278,709		12,425,504
Associated governmental activities:						
Internal service	100,000		128,208			228,208
Business-type activities:						
Water fund		45,000	721,252	225,000		991,252
Total transfers out	\$ 162,200	\$ 9,696,304	\$ 2,130,780	\$ 2,929,078	\$ 7,140	

Net transfers government-wide statement of activities \$ 984,112

For the most part, interfund transfers occur during the normal course of operations, for instance to fund capital projects.

Advances by the Local Improvement Revolving Fund to other primary government funds and component units are as follows:

PRIMARY GOVERNMENT

Major governmental

Capital Improvement Fund \$ 4,714,876

Non-major governmental

Grants Fund 150,000

Special Assessment Construction Fund 1,888,938

Total non-major governmental \$ 2,038,938

Proprietary

Water and Sewer Fund 600,000

Total primary government \$ 7,353,814

COMPONENT UNITS

Governmental

Local Development Finance Authority \$ 4,814,442

Downtown Development Authority 530,041

Total component units \$ 5,344,483

Proprietary

Nonprofit Housing Corporation 340,592

Total component units \$ 5,685,075

City of Southfield
Notes to Financial Statements

4. OTHER INFORMATION

A. Fund Balance Designated and Reserved

June 30, 2006

DESIGNATED

General Fund

Subsequent year's expenditures	\$ 1,372,718
Specific programs	
Capital projects	1,275,000
Dispatch improvements	394,301
Economic development	1,200,000
Economic development/roads	100,000
Emergency clean up	525,785
Equalization reserve	1,400,000
Reserve for future budgetary needs	900,000
Residential program initiatives	200,000
Technological improvements	434,714
Total specific programs	6,429,800

Special Revenue Funds

Parks and Recreation	
Bedford Woods (Cell phone tower)	64,050
Handicapped programs	12,818
SMART programs	31,552
Total Parks & Recreation specific programs	108,420
Library	
Capital projects	554,676
Residential program initiatives	29,754
Technological development	133,633
Total Library specific programs	718,063
Cable Television, equipment replacement	250,000
Total specific programs	\$ 1,076,483

RESERVED

General Fund

Right-of-way funds/Metro Authority	216,886
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Special Revenue Funds

Donations and Memorial Trusts	1,397,829
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Debt Service Funds

Drains at large debt	474,140
Building authority debt	10,530
Special assessment debt	1,818,405
Total debt service	\$ 2,303,075

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

B. Property Taxes

Property taxes are levied each July 1 on the taxable value of property, as equalized by the State at 50% of estimated market value as of the preceding December 31 and subject to the tax limitations prescribed by state law. The state equalized valuation of real and personal property located in the City, based on the December 31, 2004 valuation, was \$4,179,962,410 and the taxable value was \$3,386,748,000. The City's operating tax rate was 6.6094 mills which is the charter limit. In addition, extra voted and other authorized millage for special operations, pensions, expansion and debt retirement brought the total tax rate for the City to 16.264 mills.

In 1994, Proposal A/Public Act 415 was approved by Michigan voters. It requires that annual increases in the taxable value of individual properties that remain in the same ownership be limited to the lesser of five percent or the rate of inflation. Properties are adjusted to market value for purposes of property taxation only at the time of sale or transfer. Utilizing a 2005 rate of inflation cap of 2.3%, the City of Southfield's 2005-06 State Equalized Evaluation ("SEV") of \$4,179,962,410 was capped at a Taxable Assessed Valuation ("TAV") of \$3,386,748,000.

Taxes are due July 1 and December 1 (the lien dates) and are collectible through August 31 and February 14, respectively (the collection dates), without penalty. The tax levy is based on a December 31 assessment date. After February 28, all taxes are declared delinquent. Delinquent property taxes are turned over to the County Treasurer who assumes responsibility for their collection and, at the same time reimburses the City for the total amount of delinquent property taxes.

C. Contingencies

Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefit claims. The City participates in the Michigan Municipal Risk Management Authority (MMRMA) risk pool for claims relating to bodily injury, personal injury, property damage to property of others, public officials and law enforcement liability, and statutory Michigan "no fault" or owned automobiles. The City is partially uninsured for workers compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The MMRMA program is approved and regulated by the Michigan Insurance Bureau and provides coverage of \$15 million per occurrence, with the first \$250,000 self insured retention being the responsibility of the City for all liability claims. For property damage claim coverage, the MMRMA provides combined property coverage of \$200 million, with the City's self insured retention responsibility being as follows;

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

C. Contingencies (continued)

	City's Self Insured Retention
Vehicle damage	\$1,000 per vehicle for any vehicle with a value greater than \$15,000. Fully responsible for vehicles with a value under \$15,000.
Property and Crime	A maximum of \$11,000 per occurrence.
Sewage System Outflow	\$500,000 per occurrence

Under the workers compensation benefit plan, the City is liable for claims up to a maximum amount of \$500,000 per employee occurrence. For the aggregate total of all employees, the amount is based on total payroll for all open claim years. The total aggregate self insurance retention amount would be approximately \$11,869,000 at June 30, 2006 related to these open claim years.

The City estimates the liability for workers compensation and general property and liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The estimates are recorded in the Self-Insurance Internal Service Fund.

Litigation

The City is a defendant to various claims, legal actions and complaints arising in the ordinary course of business. The City denies the allegations and plans a vigorous defense. In the opinion of legal council, all such matters as indicated above are adequately covered by insurance, or if not so covered, are without merit or of such kind, or involve such amounts that an unfavorable disposition would not have a material effect on the financial position of the City.

Tax Appeals to the Michigan Tax Tribunal

The City has several outstanding property tax assessment appeals totaling approximately \$255,703,154 in taxable value to the Michigan Tax Tribunal. If unsuccessful with any portion of these appeals, the City's potential loss in tax dollars is \$4,091,250 exclusive of interest and penalties.

D. Pension Trusts

Plan description

The City of Southfield's Act 345 Fire and Police Retirement System ("FPRS") is a single-employer plan consisting of a defined contribution plan and a defined benefit plan. The system covers all sworn firefighters and police officers. Employee contribution rates are determined by bargaining agreement or Act 345.

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

D. Pension Trusts (continued)

To be eligible to retire under the provisions of a service retirement, a member must attain at least 20 years of service credit with the Retirement System. The current benefit is calculated using 2.8 percent of final average compensation multiplied by a maximum of 25 years service credit, with applicable reductions based on retirement options.

A lump-sum withdrawal of the accumulated employee contributions and accrued interest can be refunded to a member from the defined contribution plan account at the time of termination or service retirement. A lifetime monthly defined benefit pension is also provided. Members are vested into the defined benefit plan once they attain 10 years of service. A vested deferred pension is provided as long as the member leaves the accumulated contributions and accrued interest with the Retirement System.

The Southfield Employee Retirement System ("SERS") plan is a single-employer defined benefit plan that covers full-time career personnel of the City (other than sworn police officers, firefighters, the City Attorney and the City Administrator, who have an individual retirement plan by contract). Employee contribution rates are determined by bargaining agreements, or the pension ordinance. To be eligible for regular retirement, a member must meet one of the following conditions attain age 57 years with 25 years of service; age 65 years with 5 years of service; age 62 years with 20 or more years of service; or members may retire when their age plus years of credited service equals 82. The pension benefit is a percentage (current multiplier) of final average compensation multiplied by the total years of service credit, with applicable reductions based on retirement option selections. The multiplier in effect is determined by bargaining agreements or the pension ordinance.

Employer contribution rates are actuarially determined for both plans. In addition, FPRS and SERS fund post-retirement health care benefits for their retirees. Each retirement system also provides disability, death and vested deferred benefits which have their own specific eligibility requirements, calculation provisions and health insurance options as provided by either FPRS or SERS. Employees are not permitted to receive loans from either plan.

Based on the most recent actuarial valuations of the plans as of June 30, 2006, membership for each plan is as follows:

	Fire and police system	Employee retirement system	Total
Active members			
Vested	152	216	368
Nonvested	105	212	317
Total	<u>257</u>	<u>428</u>	<u>685</u>
Retirees and beneficiaries	233	209	442
Inactive vested members	2	28	30
	<u>492</u>	<u>665</u>	<u>1,157</u>

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

D. Pension Trusts (continued)

Assets in both plans represent investments used to fund retirement benefits and post-retirement health care benefits for members of the plans. Retirement investments are subject to a number of restrictions stipulated by state law as to the type, quality and concentration of investments. A separate financial report is not issued for the pension plans.

Actuarial cost method

- 1) Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual entry-age actuarial cost method having the following assumptions.
 - The annual normal cost for each individual active member, payable from the date of employment to the date of retirement (or the date of drop, if earlier), is sufficient to accumulate the value of the members benefit at the time of retirement
 - Each annual normal cost is a constant percentage of the members' year-by-year projected covered pay.
- 2) Unfunded actuarial accrued liabilities were amortized by level (principal and interest combined) percent-of-payroll contributions over a period of 30 years for SERS. FPRS is not amortized.

Reserves

As of June 30, 2006, the plans legally required reserves have been fully funded. Of the plans net assets, \$1,464,462 of the SERS and \$15,120,633 of the FPRS net assets have been reserved to pay for retiree health insurance.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to the SERS and FPRS for the current year are as follows:

	SERS	FPRS
Annual required contribution/pension cost	\$ 2,575,412	\$ 3,559,734
Contribution made	<u>(2,575,412)</u>	<u>(3,559,734)</u>
Increase (decrease) in net pension obligation	-	-

Contributions required and contributions made

The City's funding policy provides for periodic employer and employee contributions to both plans expressed as percentages of annual-covered payroll which are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry-age actuarial funding method. Actuarial assumptions include an assumed rate of inflation of 4.5%, an assumed investment income rate of 8% for SERS and a 5 year smooth market. Actuarial assumptions include an assumed rate of inflation of 4.25%, an assumed investment income rate of 7.75% for FPRS and a 5 year smoothed market. If the number of active members remains constant, then the total active member payroll will increase 4.5% annually for inflation, with an additional increase of one to 5.8% for seniority/merit in SERS and 4.25% annually for inflation with an additional 0 to 10% for seniority/merit

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

D. Pension Trusts (continued)

in FPRS . Each annual normal cost is a constant percentage of the members' year by year projected covered pay. The funding credit and unfunded actuarial accrued liabilities for SERS are amortized as a level percent of payroll over a closed period of 28 years. The aggregate unfunded actuarial accrued liability/full funding credit for the FPRS is not amortized. The interest on the full funding credit offsets normal cost contributions.

During the year ended June 30, 2006, contributions totaling \$4,404,007 (\$3,559,734 employer and \$844,273 employee) and \$2,577,201 (\$2,575,412 employer and \$1,789 employee) were made to FPRS and SERS, respectively.

Trend information

The following three year trend information presented below for both pension plans discloses annual pension benefit costs.

Annual pension benefit costs:

	2006	2005	2004
SERS \$	5,576,895	\$ 4,496,822	\$ 3,131,326
FPRS	12,681,112	13,422,983	8,428,249

The following three year trend information presented below for both pension plans discloses annual pension contributions.

Annual pension contributions:

	2006	2005	2004
EMPLOYER SERS	\$ 2,575,412	\$ 1,606,922	\$ 365,209
EMPLOYEE SERS	1,789	4,973	11,883
EMPLOYER FPRS	3,559,734	3,731,299	2,587,659
EMPLOYEE FPRS	844,273	800,169	796,476

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

D. Pension Trusts (continued)

Retiree Health Care

The City's two retirement plans contain designated funds for retiree health insurance. The City-sponsored health benefit plan is administered by the City in accordance with provisions of the bargaining agreements and City Council resolutions.

In 2001, the City Council adopted an ordinance which established the Retiree Health Care Benefits Plan and Trust for the purpose of pre-funding for retiree health care expenses. The Plan and Trust taken as a whole constitutes a voluntary employees beneficiary association (VEBA) under Section 501(c) (9) of the

Internal Revenue Code of 1986, as amended. The VEBA plan, as it is commonly known, is administered by an 11 member board, consisting of the five (5) members of the Fire and Police Retirement System Board, the three (3) members of the Administrative Civil Service Commission, two (2) elected SERS active members, and the City Administrator.

The actuary calculates an employer contribution rate for the VEBA, based on current costs, predicted health inflation and retiree mortality expectation. All retiree health care contributions are now made to the VEBA plan. Retiree health care expenses will be paid from the previously-designated monies within the FPRS and SERS pension funds until those sources are exhausted. Thereafter, the expenses will be paid from the VEBA.

Since 1987, health insurance premiums for retirees of the Fire and Police Retirement System are fully paid by the City for both the member and his/her spouse. For members retired after July 1, 1992, fully paid health insurance also includes the coverage of dependents in addition to the member's spouse.

As of July 1, 2002, retirees of the Southfield Employee Retirement System pay \$10 per month for single health insurance coverage, and \$20 per month for the member plus spouse, unless otherwise provided in the collective bargaining agreement.

E. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

In accordance with GASB Statement No. 32, "Accounting and financial reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the City has removed the plans assets from the financial statements.

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

F. Prior period Adjustments

Several prior period adjustments were necessary to correct beginning balances. The largest adjustment resulted from the City implementing new software for tracking capital assets and many obsolete assets were removed. In recognizing accrued compensated absences, the City over estimated its liability by including some leave banks that would not require payment with current resources. The unavailable deferred revenue for grants, special assessments and taxes was not recognized. The following is a breakdown of prior period adjustments:

COMPONENT UNITS					
Modified Accrual					
	Major Funds		Non-Major funds		Total
	Local Development Finance Authority	Tax Increment Finance Authority	Brownfield Re-Development Authority	Downtown Development Authority	
1-SHORT-TERM COMP ABSENCES	33,252	16,279	3,619	35,617	88,767
2-TAX	(23,078)	(113,383)		(97,329)	(233,790)
3-LONG-TERM ADVANCES	4,814,442			463,028	5,277,470
Total modified accrual	4,824,616	(97,104)	3,619	401,316	5,132,447

COMPONENT UNITS					
Full Accrual					
	Major Funds		Non-Major funds		Total
	Local Development Finance Authority	Tax Increment Finance Authority	Brownfield Re-Development Authority	Downtown Development Authority	
2-TAX	79,300	388,999		320,948	789,247
3-LONG-TERM ADVANCES	(4,192,115)			(463,028)	(4,655,143)
4-FIXED ASSETS				(230)	(230)
1-LONG-TERM COMP ABSENCES	(32,051)	(15,979)	(3,619)	(29,060)	(80,709)
Total	(4,144,866)	373,020	(3,619)	(171,370)	(3,946,835)
Total modified accrual	4,824,616	(97,104)	3,619	401,316	5,132,447
Total full accrual	679,750	275,916	-	229,946	1,185,612

1 - Short-term compensated absences were inappropriately reflected in the modified accrual funds as a liability even though no triggering event had occurred. These amounts were removed as liabilities on the modified accrual basis but added to the full accrual basis. Long-term compensated absences were overstated in the full accrual statements because they included amounts that were in excess of capped amounts that would be paid to employees upon termination.

2 - Delinquent personal property taxes were incorrectly shown as revenue in the modified accrual funds rather than being reported as deferred due to not being an available resource. In the full accrual statements, all delinquent property taxes were reported as deferred when they should have been recognized as revenue in the year levied, net of any estimate for uncollectible balances.

3 - The long term advance was inappropriately reflected in the modified accrual presentation of the component units as a liability due to the liability being long term in nature and having a stated long term note in place, therefore indicating current resources would not be used to pay off the liability. These amounts were removed as liabilities on the modified accrual basis but added to the full accrual basis.

4 - Performed an analysis of fixed asset detail maintained within the fixed asset software. Based on the analysis, adjustments were necessary to correct the fixed asset balance and related accumulated depreciation.

City of Southfield

Notes to Financial Statements

4. OTHER INFORMATION

F. Prior period Adjustments (continued)

	GOVERNMENTAL				Total
	Major	Capital	Non-Major	Debt	
	General fund	Improvement	Special revenue		
GRANTS			598,904		598,904
RESERVE DRAINS		671,289			671,289
SHORT-TERM COMP ABSENCES	524,026		80,086		604,112
TAX	(396,044)		(161,546)	(5,017)	(562,607)
Total General fund	127,982				
Total Capital Improvement fund		671,289			
			517,444	(5,017)	
Total Non-major governmental funds				512,427	

	GOVERNMENTAL (WITH ASSOCIATED GOVERNMENTAL)		PROPRIETARY	
	Governmental	Internal Service	Enterprise	Total
GRANTS	1,672,358			1,672,358
TAX	1,595,870			1,595,870
FIXED ASSETS	(12,259,539)	(493,260)	(8,426,172)	(21,178,971)
UNBILLED WATER			(806,370)	(806,370)
LONG-TERM COMP ABSENCES	1,510,164	262,165	119,591	1,891,920
INSURANCE & WORKERS' COMP LIABILITY		(496,731)		(496,731)
SPECIAL ASSESSMENTS	1,098,935			1,098,935
DISCOUNTS PAYABLE	(4,881)			(4,881)
SHORT-TERM COMP ABSENCES	(600,070)			(600,070)
Total governmental funds	(6,987,163)	(727,826)		
Total modified accrual governmental funds		1,311,698		
Total full accrual governmental funds			(6,403,291)	
Total Enterprise fund			(9,112,951)	

1 - Performed an analysis of fixed asset detail maintained within the fixed asset software. Based on the analysis, adjustments were necessary to correct the fixed asset balance and related accumulated depreciation.

2 - Drain reserves held at the County were inappropriately reflected as deferred revenue in the enterprise funds and should have been shown as an asset within the capital projects fund. In the enterprise fund, there is no impact on net assets as the reserves were reflected as an asset offset by deferred revenue.

3 - Short-term compensated absences were inappropriately reflected in the modified accrual funds as a liability even though no triggering event had occurred. These amounts were removed as liabilities on the modified accrual basis but added to the full accrual basis. Long-term compensated absences were overstated in the full accrual statements because they included amounts that were in excess of capped amounts that would be paid to employees upon termination.

4 - The calculation of unbilled water receivable was overstated in the prior year.

5 - Grant revenue and special assessment revenue in the full accrual statements was reported in error as deferred revenue. It was reported in error due to the amounts being earned and just not yet received as of year end.

6 - Delinquent personal property taxes were incorrectly shown as revenue in the modified accrual funds rather than being reported as deferred due not being an available resource. In the full accrual statements, all delinquent property taxes were reported as deferred when they should have been recognized as revenue in the year levied, net of any estimate for uncollectible balances.

7 - Bond discounts should have been amortized on an annual basis.

8 - Liabilities under the City's partially self-insured general and workers' compensation insurance policies were not reflected in the internal service fund in past years.

City of Southfield
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget -
			Amounts	Positive
				(Negative)
REVENUES				
Taxes	\$ 40,552,472	\$ 40,552,472	\$ 40,004,994	\$ (547,478)
Charges for services	2,668,138	2,668,138	3,036,206	368,068
Sanitation	3,189,952	3,189,952	3,174,219	(15,733)
Licenses and Permits	2,324,360	2,324,360	2,415,319	90,959
Fines and forfeitures	4,370,352	4,370,352	3,949,725	(420,627)
Intergovernmental:				
Federal	76,115	88,615	84,193	(4,422)
State	7,654,753	7,654,753	7,709,834	55,081
Other	625,268	625,268	530,886	(94,382)
Investment earnings	351,042	351,042	867,265	516,223
Other	375,807	375,807	721,639	345,832
Total revenues	62,188,259	62,200,759	62,494,280	293,521
EXPENDITURES				
General government:				
Council	157,788	157,788	146,139	11,649
Mayor	199,094	199,094	194,899	4,195
Administration	298,688	298,739	298,348	391
Legal	1,027,460	1,027,460	1,020,813	6,647
Clerk's	990,975	1,005,553	1,002,099	3,454
Human Resources	1,170,648	1,177,394	1,177,321	73
Finance/OMB	1,076,445	1,127,157	950,370	176,787
Other - unclassified	5,967,520	6,118,476	5,013,555	1,104,921
Total general government	10,888,618	11,111,661	9,803,544	1,308,117
Public Safety:				
Police	21,233,751	21,193,956	20,540,596	653,360
Fire	13,448,858	13,454,229	13,315,251	138,978
Building and safety engineering	2,496,955	2,498,873	2,423,325	75,548
46th Michigan District Court	3,350,385	3,370,385	3,273,431	96,954
Civilian support services	2,935,007	2,938,977	2,806,782	132,195
Total public safety	43,464,956	43,456,420	42,359,385	1,097,035
Public Services:				
Community development	224,030	224,030	349,265	(125,235)
Sanitation	3,224,092	3,224,092	3,005,450	218,642
Road service administration	649,248	650,201	792,693	(142,492)
Total public services	4,097,370	4,098,323	4,147,408	(49,085)
Social Services	372,249	384,796	383,705	1,091
Other:				
Insurance and bonds	705,454	705,454	685,698	19,756
Unallocated costs	3,975,700	4,046,420	4,586,846	(540,426)
Total other	4,681,154	4,751,874	5,272,544	(520,670)
Total expenditures	63,504,347	63,803,074	61,966,586	1,836,488
Excess (deficiency) of revenues				
over (under) expenditures	(1,316,088)	(1,602,315)	527,694	2,130,009
OTHER FINANCING SOURCES (USES)				
Transfers in	182,790	182,790	162,200	(20,590)
Transfers out	(925,080)	(1,028,103)	(1,280,538)	(252,435)
Total other financing sources (uses)	(742,290)	(845,313)	(1,118,338)	(273,025)
Net change in fund balances	(2,058,378)	(2,447,628)	(590,644)	1,856,984
Fund balances - beginning	14,737,763	14,737,763	14,737,763	-
Prior period adjustment			127,982	127,982
Fund balances - ending	\$ 12,679,385	\$ 12,290,135	\$ 14,275,101	\$ 1,984,966

The notes to the financial statements are an integral part of this statement.

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Major Street Fund

For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Intergovernmental				
State	\$ 4,219,033	\$ 4,219,033	\$ 4,307,288	\$ 88,255
Other	90,015	90,015	654,732	564,717
Investment loss	10,000	10,000	(21,842)	(31,842)
Total revenues	4,319,048	4,319,048	4,940,178	621,130
EXPENDITURES				
Highways and streets:				
Administration	303,088	303,088	300,668	2,420
Road construction	1,177,014	13,000,014	9,232,237	3,767,777
Road maintenance	1,021,126	1,062,465	1,311,541	(249,076)
Traffic service	635,765	637,816	519,391	118,425
Snow removal	657,743	658,372	463,298	195,074
Appearance	1,080,853	1,087,076	785,971	301,105
Debt service:				
Interest and fiscal charges	463,038	463,038	414,161	48,877
Total expenditures	5,338,627	17,211,869	13,027,267	4,184,602
Deficiency of revenues under expenditures	(1,019,579)	(12,892,821)	(8,087,089)	4,805,732
OTHER FINANCING SOURCES				
Transfers in	1,019,579	12,633,235	9,696,304	(2,936,931)
Net change in fund balances	-	(259,586)	1,609,215	1,868,801
Fund balances - beginning	1,096,074	1,096,074	1,096,074	-
Fund balances - ending	\$ 1,096,074	\$ 836,488	\$ 2,705,289	\$ 1,868,801

The notes to the financial statements are an integral part of this statement.

City of Southfield
Required Supplementary Information
Schedule of Funding Progress
Six-Year Historical Trend Information

Fire and Police Retirement System Pension Benefits

(dollar amounts in millions)

Valuation date June 30,	Actuarial value of assets (a)	Actuarial accrued liability ("AAL") (b)	Unfunded actuarial accrued liability (b-a)	Funded ratio (a/b)	Covered payroll	Ratio of UAAL to covered payroll
2005 \$	178.0	\$ 172.3	\$ (5.7)	103.3% \$	19.6	-
2004	177.4	170.2	(7.2)	104.2	20.4	-
2003	177.3	164.3	(13.0)	107.9	19.6	-
2002	183.6	150.8	(32.8)	121.8	19.1	-
2001	186.5	146.4	(40.1)	127.4	18.4	-
2000	184.4	141.4	(43.0)	130.4	17.9	-

Employees Retirement System Pension Benefits

(dollar amounts in millions)

Valuation date June 30,	Actuarial value of assets (a)	Actuarial accrued liability ("AAL") (b)	Unfunded actuarial accrued liability (b-a)	Funded ratio (a/b)	Covered payroll	Ratio of UAAL to covered payroll
2005 \$	92.0	\$ 102.5	\$ 10.5	89.7% \$	19.9	52.9%
2004	91.1	96.6	5.5	94.3	21.4	25.7%
2003	90.5	80.9	(9.6)	111.8	20.3	-
2002	90.6	70.0	(20.6)	129.0	19.3	-
2001	90.5	62.5	(28.0)	145.0	18.1	-
2000	84.8	57.3	(27.5)	148.0	16.8	-

City of Southfield
Required Supplementary Information
Schedule of Funding Progress
(continued)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation, follows:

	Employee Retirement	Fire and Police
Actuarial Cost Method		Individual Entry Age
All members excluding Non-Union	Entry Age Normal	
Non-Union members	Aggregate	
Amortization Method	Level percent of payroll	Level percent of payroll
Remaining amortization period	28 years (closed)	20 years (open)
Asset valuation method	5-year smoothed market	4-year smoothed market
Actuarial assumption		
Investment rate of return	8%	7.75%
Wage inflation	4.5%	4.25%
Projected salary increases*	5.5% - 10.3%	4.25% - 14.25%
Post-retirement benefit increases	Ad-hoc as provided by ordinance	None

* Includes wage inflation

City of Southfield
Required Supplementary Information
Schedule of Employer Contributions
Six-Year Historical Trend Information

Fire and police retirement system pension benefits

Valuation Year ended June 30,	Fiscal year ended June 30,	Contribution rates as a percent of actual payroll	Computed dollar contribution based on actual payroll	Percent contributed	
2004	2006	17.57%	\$ 3,559,734	100.00	%
2003	2005	17.55	3,731,299	100.00	
2002	2004	15.39	2,587,659	100.00	
2001	2003	14.20	2,428,823	100.00	
2000	2002	13.86	2,474,840	100.00	
1999	2001	12.85	2,183,282	100.00	

Employee retirement system pension benefit

Valuation Year ended June 30,	Fiscal year ended June 30,	Contribution rates as a percent of actual payroll	Computed dollar contribution based on actual payroll	Percent contributed	
2004	2006	13.03%	\$ 2,575,412	100.00	%
2003	2005	6.78	1,606,922	100.00	
2002	2004	1.31	365,209	100.00	
2001	2003	-	-	N/A *	
2000	2002	-	-	N/A *	
1999	2001	-	-	N/A *	

* No contribution required because the fund was overfunded.

City of Southfield
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
ASSETS				
Cash and cash equivalents	\$ 3,745,445	\$ 1,577,694	\$ 1,179,079	\$ 6,502,218
Investments	13,522,462	692,940	2,344,166	16,559,568
Prepays	142,320			142,320
Receivables:				
Special Assessments		1,084,258	14,677	1,098,935
Accrued interest	159,412	8,612	31,709	199,733
Other	1,603,506	12,364	32,552	1,648,422
Restricted assets:				
Cash and cash equivalents			2,272,778	2,272,778
Investments			1,441,318	1,441,318
Due from other funds	1,054,946	75,684	1,038,308	2,168,938
Due from other governmental units	591,832			591,832
Total assets	\$ 20,819,923	\$ 3,451,552	\$ 8,354,587	\$ 32,626,062
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	517,940	3,242	1,482,215	2,003,397
Accrued payroll	203,242			203,242
Due to other funds	1,774,797	7,711	65,390	1,847,898
Deferred revenue	1,694,421	1,101,639	14,677	2,810,737
Other short-term liabilities	277,262	35,885		313,147
Long-term advances from local improvement revolving fund	150,000		1,888,938	2,038,938
Total liabilities	4,617,662	1,148,477	3,451,220	9,217,359
Fund balance:				
Reserved for:				
Encumbrances	842,093			842,093
Specific programs	1,397,829			1,397,829
Debt service		2,303,075		2,303,075
Restricted assets			3,714,096	3,714,096
Unreserved				
Designated for:				
Specific programs	1,076,483			1,076,483
Undesignated	12,885,856		1,189,271	14,075,127
Total fund balances	16,202,261	2,303,075	4,903,367	23,408,703
Total liabilities and fund balances	\$ 20,819,923	\$ 3,451,552	\$ 8,354,587	\$ 32,626,062

The notes to the financial statements are an integral part of this statement.

City of Southfield

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
REVENUES				
Taxes	\$ 17,164,452	\$ 269,334		\$ 17,433,786
Special assessments		219,010	\$ 132,640	351,650
Charges for services	3,069,789			3,069,789
Fines and forfeitures	592,034			592,034
Franchise fees	796,165			796,165
Intergovernmental revenue:				
Federal	3,341,077			3,341,077
State	1,443,566			1,443,566
Other	1,100	660,000		661,100
Contributions	153,447			153,447
Investment earnings	672,658	34,617	482,710	1,189,985
Other	453,184	75,551	48,045	576,780
Total revenues	<u>27,687,472</u>	<u>1,258,512</u>	<u>663,395</u>	<u>29,609,379</u>
EXPENDITURES				
Current:				
Public safety	1,089,427			1,089,427
Highways and streets	3,349,669			3,349,669
Social services	2,675,331			2,675,331
Culture and recreation	14,607,612			14,607,612
Community improvement	688,469			688,469
Other	200,816	5,002	1,708,128	1,913,946
Debt service:				
Principal retirement	66,577	809,619		876,196
Interest and fiscal charges	58,708	1,825,787	182,563	2,067,058
Total expenditures	<u>22,736,609</u>	<u>2,640,408</u>	<u>1,890,691</u>	<u>27,267,708</u>
Excess (deficiency) of revenues over (under) expenditures	4,950,863	(1,381,896)	(1,227,296)	2,341,671
OTHER FINANCING SOURCES (USES)				
Transfers in	883,647	2,037,720	7,711	2,929,078
Transfers out	(3,658,679)	(7,711)	(8,759,114)	(12,425,504)
Total other financing sources (uses)	<u>(2,775,032)</u>	<u>2,030,009</u>	<u>(8,751,403)</u>	<u>(9,496,426)</u>
Net change in fund balances	2,175,831	648,113	(9,978,699)	(7,154,755)
Fund balances - beginning	13,508,986	1,659,979	14,882,066	30,051,031
Prior period adjustment	517,444	(5,017)		512,427
Fund balances - ending	<u>\$ 16,202,261</u>	<u>\$ 2,303,075</u>	<u>\$ 4,903,367</u>	<u>\$ 23,408,703</u>

The notes to the financial statements are an integral part of this statement.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These funds account for the proceeds of specific revenue sources used to finance projects or activities as required by law or contractual agreement. The following funds are currently established:

LOCAL STREET FUND

Michigan's Act 51 of 1933, as amended, allocates gas and weight taxes to build and maintain roads, roadsides, and storm sewers. Snow removal and traffic control are also supported by this funding source. Local Streets, which primarily service the residential community, are maintained by the City through a one-mill City tax levy for residential street maintenance and to a lesser degree by Act 51 funding.

MUNICIPAL STREET FUND

The Municipal Street fund was established to account for activities of the road appearance program, which was initiated in 1989-90 to provide a uniform standard for all roadside mowing, litter pick-up, street sweeping and catch basin cleaning on all roads throughout the City. It is separately funded through Public Act 298 of 1917.

PARKS AND RECREATION FUND

Specific property taxes, grants and user fees are used to operate the ice arena, swimming pool, and activities at parks, playgrounds and other facilities. Golf course activities, which include the Evergreen Hills Golf Course and Pro Shop, Beech Woods Golf Course, Pro Shop and Driving Range, were consolidated with the Parks & Recreation Fund in 1999 – 2000.

CABLE TELEVISION FUND

The Cable Television Fund was established to account for fees received under provisions of the cable television franchise agreement. These fees are used for local programming and certain other purposes.

BLOCK GRANT FUND

Under the Housing and Community Development Act of 1974, as amended, federal grants are targeted for neighborhood beautification, improvement and revitalization and other community improvements; these activities benefit low and moderate income persons in targeted areas as defined by the Department of Housing and Urban Development (HUD).

SECTION 8 HOUSING FUND

Section 8 Housing Fund was established to account for rent subsidies provided by the U.S. Department of Housing and Urban Development which are made available to eligible persons.

DRUG LAW ENFORCEMENT FUND

The Drug Law Enforcement fund was established pursuant to Public Act 135 of 1985. As provided by Article 7 of this Act, property associated with controlled substances may be seized and the proceeds from its sale used to enhance law enforcement related to controlled substances.

LOCAL LAW ENFORCEMENT BLOCK GRANT FUND

The Grant was authorized under the Omnibus Fiscal Year 1997 Appropriation Act (Public Law 104-208) for the purposes of reducing crime and improving public safety.

GRANTS FUND

This fund accounts for individual grants received from Federal, State or other sources.

SPECIAL REVENUE FUNDS

(continued)

LIBRARY FUND

Specific property taxes, grants, user fees, state aide and related revenues are used to purchase books and computers, and to operate programs in the Civic Center and at the John Grace Community Center. The newly built Southfield Public Library was opened June 15, 2003.

MICHIGAN WORKS GRANTS FUND

The Michigan Works Grants are funded by the Michigan Department of Career Development and the Oakland County Workforce Board and are administered by the Southfield Career Center.

AUTO THEFT GRANT FUND

The Auto Theft Grant fund is a State funded program designed to assist local governments in auto theft investigation and prevention.

DONATIONS AND MEMORIAL TRUSTS

This fund accounts for endowments, restricted donations and contributions in memory of City employees and City residents. The funds are controlled by the Library Board and 46th District Court and are designated in accordance with the bequest.

City of Southfield
Combining Balance Sheet
Nonmajor Governmental Funds
Special Revenue Funds
June 30, 2006

	Local Street Fund	Municipal Street Fund	Parks and Recreation Fund	Cable Television Fund	Block Grant Fund	Section 8 Housing Fund
ASSETS						
Cash and cash equivalents	\$ 343,660	\$ 105,581	\$ 854,657	\$ 85,606	\$ 582,726	\$ 295,004
Investments	5,328,805		2,848,830	146,749		
Receivables:						
Accrued interest	43,426	183	40,334	3,197	2,598	948
Other	323,367	39,214	247,863	207,203	351,996	30,306
Prepays	1,926		19,994	2,866	9,466	69,776
Due from other funds	279,935	175,812	175,077	59,613		
Total assets	\$ 6,321,119	\$ 320,790	\$ 4,186,755	\$ 505,234	\$ 946,786	\$ 396,034
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	197,661	5,519	204,670	14,542	10,042	791
Accrued payroll			113,304	11,994		2,279
Due to other funds	210,697	228,448	212,306	4,065	518,534	10,151
Deferred revenue	90,050	55,269	220,360		125,806	322,399
Other short-term liabilities	125,909			25,000	124,853	
Total liabilities	624,317	289,236	750,640	55,601	779,235	335,620
Fund balance:						
Reserved for:						
Encumbrances	649,381		129,343	13,281		
Unreserved:						
Designated for:						
Specific programs			108,420	250,000		
Undesignated	5,047,421	31,554	3,198,352	186,352	167,551	60,414
Total fund balances	5,696,802	31,554	3,436,115	449,633	167,551	60,414
Total liabilities						
and fund balances	\$ 6,321,119	\$ 320,790	\$ 4,186,755	\$ 505,234	\$ 946,786	\$ 396,034

The notes to the financial statements are an integral part of this statement.

City of Southfield
Combining Balance Sheet
Nonmajor Governmental Funds
Special Revenue Funds
June 30, 2006

	Drug Law Enforcement Fund	Local Law Enforcement Block Grant Fund	Grants Fund	Library Fund	Michigan Works Grants Fund	Auto Theft Grant Fund	Donations and Memorial Trusts	Total
ASSETS								
Cash and cash equivalents	\$ 655,439	\$ 22,793	\$ 283,119	\$ 283,717	\$ 162,959	\$ 735	\$ 69,449	\$ 3,745,445
Investments				3,891,568			1,306,510	13,522,462
Receivables:								
Accrued interest	1,408	92	834	55,785	908	15	9,684	159,412
Other		1,169		367,767	34,621			1,603,506
Prepays	3,329			26,072	8,861		30	142,320
Due from other funds	1,037		9,195	257,447		82,582	14,248	1,054,946
Due from other governmental units					591,832			591,832
Total assets	<u>\$ 661,213</u>	<u>\$ 24,054</u>	<u>\$ 293,148</u>	<u>\$ 4,882,356</u>	<u>\$ 799,181</u>	<u>\$ 83,332</u>	<u>\$ 1,399,921</u>	<u>\$ 20,819,923</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	8,143	354		40,943	33,694	29	1,552	517,940
Accrued payroll				51,301	23,824		540	203,242
Due to other funds	3,414	1,037		87,287	492,966	5,892		1,774,797
Deferred revenue		22,616	13,336	278,926	554,757	10,902		1,694,421
Other short-term liabilities	1,500							277,262
Long-term advances from local improvement revolving fund			150,000					150,000
Total liabilities	<u>13,057</u>	<u>24,007</u>	<u>163,336</u>	<u>458,457</u>	<u>1,105,241</u>	<u>16,823</u>	<u>2,092</u>	<u>4,617,662</u>
Fund balance:								
Reserved for:								
Encumbrances	6,084	600	21,995	21,107	302			842,093
Specific programs							1,397,829	1,397,829
Unreserved								
Designated for:								
Specific programs				718,063				1,076,483
Undesignated	642,072	(553)	107,817	3,684,729	(306,362)	66,509		12,885,856
Total fund balances (deficit)	<u>648,156</u>	<u>47</u>	<u>129,812</u>	<u>4,423,899</u>	<u>(306,060)</u>	<u>66,509</u>	<u>1,397,829</u>	<u>16,202,261</u>
Total liabilities and fund balances	<u>\$ 661,213</u>	<u>\$ 24,054</u>	<u>\$ 293,148</u>	<u>\$ 4,882,356</u>	<u>\$ 799,181</u>	<u>\$ 83,332</u>	<u>\$ 1,399,921</u>	<u>\$ 20,819,923</u>

The notes to the financial statements are an integral part of this statement.

(continued)

City of Southfield
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Special Revenue Funds
For the Year Ended June 30, 2006

	Local Street Fund	Municipal Street Fund	Parks and Recreation Fund	Cable Television Fund	Block Grant Fund	Section 8 Housing Fund
REVENUES						
Taxes	\$ 3,169,251	\$ 1,419,182	\$ 5,547,728			
Charges for services			2,606,338			
Franchise fees				\$ 796,165		
Intergovernmental revenue:						
Federal					\$ 710,592	\$ 1,003,471
State	1,207,718					
Investment earnings	148,964	20,466	161,309	16,102	22,944	11,625
Other	50,343	803	252,207		141,903	
Total revenues	<u>4,576,276</u>	<u>1,440,451</u>	<u>8,567,582</u>	<u>812,267</u>	<u>875,439</u>	<u>1,015,096</u>
EXPENDITURES						
Current:						
Highways and streets	3,208,598	141,071				
Social services						1,022,449
Culture and recreation			7,853,946	918,951		
Community improvement					688,469	
Other					124,853	
Debt service:						
Principal retirement	66,577					
Interest and fiscal charges	58,708					
Total expenditures	<u>3,333,883</u>	<u>141,071</u>	<u>7,853,946</u>	<u>918,951</u>	<u>813,322</u>	<u>1,022,449</u>
Excess (deficiency) of revenues over (under) expenditures	1,242,393	1,299,380	713,636	(106,684)	62,117	(7,353)
OTHER FINANCING SOURCES (USES)						
Transfers in	642,676	103,022				
Transfers out		(1,392,255)	(343,458)	(17,630)		(12,200)
Total other financing sources (uses)	<u>642,676</u>	<u>(1,289,233)</u>	<u>(343,458)</u>	<u>(17,630)</u>	<u>-</u>	<u>(12,200)</u>
Net change in fund balances	1,885,069	10,147	370,178	(124,314)	62,117	(19,553)
Fund balances - beginning	3,811,733	37,461	3,092,125	565,897		
Prior period adjustment		(16,054)	(26,188)	8,050	105,434	79,967
Fund balances - ending	<u>\$ 5,696,802</u>	<u>\$ 31,554</u>	<u>\$ 3,436,115</u>	<u>\$ 449,633</u>	<u>\$ 167,551</u>	<u>\$ 60,414</u>

The notes to the financial statements are an integral part of this statement.

City of Southfield
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Special Revenue Funds
For the Year Ended June 30, 2006

	Drug Law Enforcement Fund	Local Law Enforcement Block Grant Fund	Grants Fund	Library Fund	Michigan Works Grants Fund	Auto Theft Grant Fund	Donations and Memorial Trusts	Total
REVENUES								
Taxes				\$ 7,028,291				\$ 17,164,452
Charges for services				463,451				3,069,789
Fines and forfeitures	\$ 592,034							592,034
Franchise fees								796,165
Intergovernmental:								
Federal			\$ 369,990		\$ 1,257,024			3,341,077
State	12,938			59,616		\$ 163,294		1,443,566
Other							\$ 1,100	1,100
Contributions							153,447	153,447
Investment earnings	8,257	\$ 1,704	7,460	229,569	12,121	1,194	30,943	672,658
Other				7,928				453,184
Total revenues	613,229	1,704	377,450	7,788,855	1,269,145	164,488	185,490	27,687,472
EXPENDITURES								
Current:								
Public safety	410,581	54,966	387,952			235,928		1,089,427
Highways and streets								3,349,669
Social services					1,652,882			2,675,331
Culture and recreation				5,680,736			153,979	14,607,612
Community improvement								688,469
Other					75,963			200,816
Debt service:								
Principal retirement								66,577
Interest and fiscal charges								58,708
Total expenditures	410,581	54,966	387,952	5,680,736	1,728,845	235,928	153,979	22,736,609
Excess (deficiency) of revenues over (under) expenditures	202,648	(53,262)	(10,502)	2,108,119	(459,700)	(71,440)	31,511	4,950,863
OTHER FINANCING SOURCES (USES)								
Transfers in						137,949		883,647
Transfers out				(1,821,209)	(71,927)			(3,658,679)
Total other financing sources (uses)	-	-	-	(1,821,209)	(71,927)	137,949	-	(2,775,032)
Net change in fund balances	202,648	(53,262)	(10,502)	286,910	(531,627)	66,509	31,511	2,175,831
Fund balances - beginning	445,508	-		4,189,944			1,366,318	13,508,986
Prior period adjustment		53,309	140,314	(52,955)	225,567			517,444
Fund balances (deficit) - ending	\$ 648,156	\$ 47	\$ 129,812	\$ 4,423,899	\$ (306,060)	\$ 66,509	\$ 1,397,829	\$ 16,202,261

The notes to the financial statements are an integral part of this statement.

(continued)

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Local Street Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Taxes	\$ 3,230,675	\$ 3,169,251	\$ (61,424)
Intergovernmental:			
State	1,269,793	1,207,718	(62,075)
Investment earnings	10,000	148,964	138,964
Other	48,950	50,343	1,393
Total revenues	<u>4,559,418</u>	<u>4,576,276</u>	<u>16,858</u>
EXPENDITURES			
Highways and streets:			
Administration	318,858	307,283	11,575
Road construction	2,817,699	604,113	2,213,586
Road maintenance	1,428,897	1,444,387	(15,490)
Traffic service	209,038	186,533	22,505
Snow removal	515,366	186,677	328,689
Appearance	458,046	479,605	(21,559)
Debt service:			
Principal retirement	66,577	66,577	-
Interest and fiscal charges	59,332	58,708	624,000
Total expenditures	<u>5,873,813</u>	<u>3,333,883</u>	<u>2,539,930</u>
Excess of revenues over expenditures	(1,314,395)	1,242,393	2,556,788
OTHER FINANCING SOURCES (USES)			
Transfers in	642,676	642,676	-
Transfers out	(262,941)		262,941
Total other financing sources (uses)	<u>379,735</u>	<u>642,676</u>	<u>262,941</u>
Net change in fund balances	(934,660)	1,885,069	2,819,729
Fund balances - beginning	<u>3,811,733</u>	<u>3,811,733</u>	<u>-</u>
Fund balances - ending	<u>\$ 2,877,073</u>	<u>\$ 5,696,802</u>	<u>\$ 2,819,729</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Municipal Street Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Taxes	\$ 1,446,617	\$ 1,419,182	\$ (27,435)
Investment earnings		20,466	20,466
Other		803	803
Total revenues	<u>1,446,617</u>	<u>1,440,451</u>	<u>(6,166)</u>
EXPENDITURES			
Highways and streets	<u>136,794</u>	<u>141,071</u>	<u>(4,277)</u>
Excess of revenues over expenditures	1,309,823	1,299,380	(10,443)
OTHER FINANCING SOURCES (USES)			
Transfers in	103,022	103,022	-
Transfers out	<u>(1,412,845)</u>	<u>(1,392,255)</u>	<u>20,590</u>
Total other financing sources (uses)	<u>(1,309,823)</u>	<u>(1,289,233)</u>	<u>20,590</u>
Net change in fund balances	-	10,147	10,147
Fund balances - beginning	37,461	37,461	-
Prior period adjustment	<u></u>	<u>(16,054)</u>	<u>(16,054)</u>
Fund balances - ending	<u>\$ 37,461</u>	<u>\$ 31,554</u>	<u>\$ (5,907)</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances Final Budget and Actual - Parks and Recreation Fund For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Taxes	\$ 5,655,049	\$ 5,547,728	\$ (107,321)
Charges for services	2,601,071	2,606,338	5,267
Investment income	45,000	161,309	116,309
Other revenue	229,816	252,207	22,391
Total revenues	8,530,936	8,567,582	36,646
EXPENDITURES			
Culture and recreation:			
Administration	2,889,081	2,648,977	240,104
Parks, forestry & environmental division	901,040	809,925	91,115
Recreation division	1,086,165	1,075,378	10,787
Cultural arts division	188,576	201,263	(12,687)
Senior center division	303,115	287,566	15,549
Parks facility operations	2,071,264	1,855,536	215,728
Golf	890,892	975,301	(84,409)
Total expenditures	8,330,133	7,853,946	476,187
Excess of revenues over expenditures	200,803	713,636	512,833
OTHER FINANCING USES			
Transfers out	(303,206)	(343,458)	(40,252)
Net change in fund balances	(102,403)	370,178	472,581
Fund balances - beginning	3,092,125	3,092,125	-
Prior period adjustment		(26,188)	(26,188)
Fund balances - ending	\$ 2,989,722	\$ 3,436,115	\$ 446,393

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Cable Television Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Franchise fees	\$ 785,000	\$ 796,165	\$ 11,165
Investment earnings	5,000	16,102	11,102
Other	13,000		(13,000)
Total revenues	<u>803,000</u>	<u>812,267</u>	<u>9,267</u>
EXPENDITURES			
Culture and recreation	<u>937,221</u>	<u>918,951</u>	<u>18,270</u>
Excess of revenues over expenditures	(134,221)	(106,684)	27,537
OTHER FINANCING USES			
Transfers out	<u>(17,630)</u>	<u>(17,630)</u>	<u>-</u>
Net change in fund balances	(151,851)	(124,314)	27,537
Fund balances - beginning	565,897	565,897	-
Prior period adjustment	<u>8,050</u>	<u>8,050</u>	<u>8,050</u>
Fund balances - ending	<u>\$ 414,046</u>	<u>\$ 449,633</u>	<u>\$ 35,587</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Block Grant Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Intergovernmental:			
Federal	\$ 592,869	\$ 710,592	\$ 117,723
Investment earnings		22,944	22,944
Other		141,903	141,903
Total revenues	<u>592,869</u>	<u>875,439</u>	<u>282,570</u>
EXPENDITURES			
Community improvement	592,869	688,469	(95,600)
Other		124,853	(124,853)
	<u>592,869</u>	<u>813,322</u>	<u>(220,453)</u>
 Net change in fund balances	 -	 62,117	 62,117
 Fund balances - beginning	 	 	 -
Prior period adjustment		105,434	105,434
 Fund balances - ending	 \$ <u>-</u>	 \$ <u>167,551</u>	 \$ <u>167,551</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Section 8 Housing Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Intergovernmental:			
Federal	\$ 1,078,774	\$ 1,003,471	\$ (75,303)
Investment earnings		11,625	11,625
Total revenues	<u>1,078,774</u>	<u>1,015,096</u>	<u>(63,678)</u>
EXPENDITURES			
Social services	<u>1,066,574</u>	<u>1,022,449</u>	<u>44,125</u>
Excess of revenues over expenditures	12,200	(7,353)	(19,553)
OTHER FINANCING USES			
Transfers out	<u>(12,200)</u>	<u>(12,200)</u>	<u>-</u>
Net change in fund balances	-	(19,553)	(19,553)
Fund balances - beginning			-
Prior period adjustment		79,967	79,967
Fund balances - ending	<u>\$ -</u>	<u>\$ 60,414</u>	<u>\$ 60,414</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Drug Law Enforcement Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Fines and forfeitures	\$ 220,000	\$ 592,034	\$ 372,034
Intergovernmental:			
State	11,000	12,938	1,938
Investment earnings	7,000	8,257	1,257
Other	3,000		(3,000)
Total revenues	<u>241,000</u>	<u>613,229</u>	<u>372,229</u>
EXPENDITURES			
Public safety	<u>353,673</u>	<u>410,581</u>	<u>(56,908)</u>
Net change in fund balances	(112,673)	202,648	315,321
Fund balances - beginning	<u>445,508</u>	<u>445,508</u>	<u>-</u>
Fund balances - ending	<u>\$ 332,835</u>	<u>\$ 648,156</u>	<u>\$ 315,321</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Library Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Taxes	\$ 7,164,294	\$ 7,028,291	\$ (136,003)
Charges for services	503,145	463,451	(39,694)
Intergovernmental:			
State	66,026	59,616	(6,410)
Investment earnings	65,000	229,569	164,569
Other	69,413	7,928	(61,485)
Total revenues	<u>7,867,878</u>	<u>7,788,855</u>	<u>(79,023)</u>
EXPENDITURES			
Culture and recreation:			
Administration	1,855,428	1,806,817	48,611
Adult reference	1,440,573	1,306,153	134,420
Children's division	700,762	634,563	66,199
Circulation division	915,377	1,071,542	(156,165)
Support services division	1,154,147	861,661	292,486
Total expenditures	<u>6,066,287</u>	<u>5,680,736</u>	<u>385,551</u>
Excess of revenues over expenditures	1,801,591	2,108,119	306,528
OTHER FINANCING USES			
Transfers out	<u>(1,830,991)</u>	<u>(1,821,209)</u>	<u>9,782</u>
Net change in fund balances	(29,400)	286,910	316,310
Fund balances - beginning	4,189,944	4,189,944	-
Prior period adjustment	<u> </u>	<u>(52,955)</u>	<u>(52,955)</u>
Fund balances - ending	<u>\$ 4,160,544</u>	<u>\$ 4,423,899</u>	<u>\$ 263,355</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Michigan Works Grants Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Intergovernmental:			
Federal	\$ 1,661,397	\$ 1,257,024	\$ (404,373)
Investment earnings		12,121	12,121
Total revenues	<u>1,661,397</u>	<u>1,269,145</u>	<u>(392,252)</u>
EXPENDITURES			
Social services	1,589,470	1,652,882	(63,412)
Other		75,963	(75,963)
Total expenditures	<u>1,589,470</u>	<u>1,728,845</u>	<u>(139,375)</u>
Excess of revenues over expenditures	71,927	(459,700)	(531,627)
OTHER FINANCING USES			
Transfers out	<u>(71,927)</u>	<u>(71,927)</u>	<u>-</u>
Net change in fund balances	-	(531,627)	(531,627)
Fund balances - beginning			-
Prior period adjustment		225,567	225,567
Fund balances (deficit) - ending	<u>\$ -</u>	<u>\$ (306,060)</u>	<u>\$ (306,060)</u>

City of Southfield

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Final Budget and Actual - Auto Theft Grant Fund

For the Year Ended June 30, 2006

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Intergovernmental:			
State	\$ 189,384	\$ 163,294	\$ (26,090)
Investment earnings	1,000	1,194	194
Total revenues	<u>190,384</u>	<u>164,488</u>	<u>(25,896)</u>
EXPENDITURES			
Public Safety	<u>250,295</u>	<u>235,928</u>	<u>14,367</u>
Deficiency of revenues under expenditures	(59,911)	(71,440)	(11,529)
OTHER FINANCING SOURCES			
Transfers in	<u>59,911</u>	<u>137,949</u>	<u>78,038</u>
Net change in fund balances	-	66,509	66,509
Fund balances - beginning	<u> </u>	<u> </u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 66,509</u>	<u>\$ 66,509</u>

NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

These funds account for the payment of interest and principal on long-term bonded debt. The City has contracted with Oakland County for indirect repayment of bonds issued for sewers and drains.

DRAINS-AT-LARGE FUND

An at-large assessment is levied upon all property to cover debt service for storm sewers built in the City by Oakland County.

LIBRARY BUILDING AUTHORITY DEBT FUND

General Library taxes are provided, through operating fund rent payments to pay debt service for construction.

BUILDING AUTHORITY DEBT FUND

General property taxes are provided, through operating fund rent payments, to pay debt service for construction or renovation of various municipal buildings.

LONG-TERM GENERAL OBLIGATION DEBT FUND

General fund operating revenues are provided to pay debt service for Fire Station #4 and Municipal Building renovations.

SPECIAL ASSESSMENT DEBT FUND

Special assessments collected by this fund are used to pay internal loans borrowed for specific local improvements which benefit property owners.

City of Southfield
Combining Balance Sheet
Nonmajor Governmental Funds
Debt Service Funds
June 30, 2006

	Drains-at- Large Debt Fund	Building Authority Debt Fund	Special Assessment Debt Fund	Total
ASSETS				
Cash and cash equivalents	\$ 451,102	\$ 7,254	\$ 1,119,338	\$ 1,577,694
Investments	37,373		655,567	692,940
Receivables:				
Special assessments			1,084,258	1,084,258
Accrued interest	1,288	16	7,308	8,612
Other	12,364			12,364
Due from other funds	25,279	3,280	47,125	75,684
Total assets	\$ 527,406	\$ 10,550	\$ 2,913,596	\$ 3,451,552
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable		20	3,222	3,242
Due to other funds			7,711	7,711
Deferred revenue	17,381		1,084,258	1,101,639
Other short term liabilities	35,885			35,885
Total liabilities	53,266	20	1,095,191	1,148,477
Fund balance:				
Reserved for Debt Service	474,140	10,530	1,818,405	2,303,075
Total liabilities and fund balances	\$ 527,406	\$ 10,550	\$ 2,913,596	\$ 3,451,552

The notes to the financial statements are an integral part of this statement.

City of Southfield

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Debt Service Funds

For the Year Ended June 30, 2006

	Library Building Authority Debt Fund	Drains-at- Large Debt Fund	Building Authority Debt Fund	Long-term General Obligation Debt Fund	Special Assessment Debt Fund	Total
REVENUES						
Taxes		\$ 269,334				\$ 269,334
Special assessments					\$ 219,010	219,010
Intergovernmental:						
Other		660,000				660,000
Investment earnings		1,793	\$ 169		32,655	34,617
Other revenue					75,551	75,551
Total revenues	-	931,127	169	-	327,216	1,258,512
EXPENDITURES						
Other	\$ 275	76	4,426	\$ 225		5,002
Debt service:						
Principal retirement	450,000	359,619				809,619
Interest and fiscal charges	1,403,047	238,567		184,173		1,825,787
Total expenditures	1,853,322	598,262	4,426	184,398	-	2,640,408
Excess (deficiency) of revenues over (under) expenditures	(1,853,322)	332,865	(4,257)	(184,398)	327,216	(1,381,896)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,853,322			184,398		2,037,720
Transfers out					(7,711)	(7,711)
Total other financing sources (uses)	1,853,322	-	-	184,398	(7,711)	2,030,009
Net change in fund balances	-	332,865	(4,257)	-	319,505	648,113
Fund balances - beginning	-	146,292	14,787	-	1,498,900	1,659,979
Prior period adjustment		(5,017)				(5,017)
Fund balances - ending	<u>\$ -</u>	<u>\$ 474,140</u>	<u>\$ 10,530</u>	<u>\$ -</u>	<u>\$ 1,818,405</u>	<u>\$ 2,303,075</u>

The notes to the financial statements are an integral part of this statement.

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUNDS

These funds account for resources used for the acquisition or major renovation of capital facilities. Disbursements from these funds are primarily for property acquisition and the construction of permanent public improvements. The major financing sources are bond proceeds, transfers from other City funds, internal loans and grants.

ROAD CONSTRUCTION FUND: The Road Construction Fund accounts for the construction of road improvements. Proceeds are from Michigan Transportation fund bonds.

LIBRARY BUILDING AUTHORITY FUND

The Southfield Library Building Authority was incorporated June 14, 1999 under the provisions of Act 31, Public Acts of 1948, to purchase or construct, furnish, equip and maintain a Southfield public library building. As provided in Act 31, the Library Building Authority may also issue negotiable bonds to be repaid through rental payments of the Library to the City. The Authority's Debt Service Funds are presented in the preceding section.

CIVIC CENTER IMPROVEMENT FUND

This fund was created for maintenance and improvement of the City Civic Center.

BUILDING AUTHORITY FUND

The Southfield Building Authority was incorporated October 16, 1962 under the provisions of Act 31, Public Acts of 1948, to purchase or construct facilities for use by the City. Building Authority bonds are issued to finance large-scale projects, while internal financing is used to fund other construction projects. The Authority's Debt Service Funds are presented in the preceding section.

SPECIAL ASSESSMENT CONSTRUCTION FUND

This fund accounts for the construction phase of local improvements which benefit specific property owners and are ultimately financed through special assessments. Any debt service related to these projects is presented in the previous section.

City of Southfield
Combining Balance Sheet
Nonmajor Governmental Funds
Capital Project Funds
June 30, 2006

	Road Construction Fund	Library Building Authority Construction Fund	Civic Center Improvement Fund	Building Authority Construction Fund	Special Assessment Construction Fund	Total
ASSETS						
Cash and cash equivalents		\$ 239,994	\$ 10,417	\$ 188,110	\$ 740,558	\$ 1,179,079
Investments		1,886,778			457,388	2,344,166
Receivables:						
Special assessments					14,677	14,677
Accrued interest	\$ 6,332	18,086	24	702	6,565	31,709
Other	22,770	9,782				32,552
Restricted assets:						
Cash and cash equivalents	2,258,315			14,463		2,272,778
Investments	1,441,318					1,441,318
Due from other funds	947,755				90,553	1,038,308
Total assets	\$ 4,676,490	\$ 2,154,640	\$ 10,441	\$ 203,275	\$ 1,309,741	\$ 8,354,587
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	1,403,713	52,983		9,077	16,442	1,482,215
Due to other funds		465		39,639	25,286	65,390
Deferred revenue					14,677	14,677
Long-term advances from local improvement revolving fund					1,888,938	1,888,938
Total liabilities	1,403,713	53,448	-	48,716	1,945,343	3,451,220
Fund balances (deficit):						
Reserved for restricted assets	3,699,633			14,463		3,714,096
Unreserved:						
Undesignated	(426,856)	2,101,192	10,441	140,096	(635,602)	1,189,271
Total fund balances (deficit)	3,272,777	2,101,192	10,441	154,559	(635,602)	4,903,367
Total liabilities and fund balances	\$ 4,676,490	\$ 2,154,640	\$ 10,441	\$ 203,275	\$ 1,309,741	\$ 8,354,587

The notes to the financial statements are an integral part of this statement.

City of Southfield

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Capital Project Funds

For the Year Ended June 30, 2006

	Road Construction Fund	Library Building Authority Construction Fund	Civic Center Improvement Fund	Building Authority Construction Fund	Special Assessment Construction Fund	Total
REVENUES						
Special assessments					\$ 132,640	\$ 132,640
Investment earnings (loss)	\$ 296,755	\$ 79,907	\$ 210	\$ 22,047	83,791	482,710
Other	39,090			8,955		48,045
Total revenues	335,845	79,907	210	31,002	216,431	663,395
EXPENDITURES						
Capital outlay, construction and other costs		473,098		721,654	513,376	1,708,128
Debt service:						
Interest charges					182,563	182,563
Total expenditures		473,098	-	721,654	695,939	1,890,691
Excess (deficiency) of revenues over (under) expenditures	335,845	(393,191)	210	(690,652)	(479,508)	(1,227,296)
OTHER FINANCING SOURCES (USES)						
Transfers in					7,711	7,711
Transfers out	(8,676,725)	(82,389)				(8,759,114)
Total other financing sources (uses)	(8,676,725)	(82,389)	-	-	7,711	(8,751,403)
Net change in fund balances	(8,340,880)	(475,580)	210	(690,652)	(471,797)	(9,978,699)
Fund balances (deficit) - beginning	11,613,657	2,576,772	10,231	845,211	(163,805)	14,882,066
Fund balances (deficit) - ending	<u>\$ 3,272,777</u>	<u>\$ 2,101,192</u>	<u>\$ 10,441</u>	<u>\$ 154,559</u>	<u>\$ (635,602)</u>	<u>\$ 4,903,367</u>

The notes to the financial statements are an integral part of this statement.

INTERNAL SERVICE FUNDS

These funds are cost control centers that operate on a full accrual basis to account for the financing of specific equipment and services provided to other City operations based on user charges.

FACILITIES MAINTENANCE FUND

This fund accounts for the ongoing maintenance of the City's physical plant, as well as construction projects carried out by in-house staff. Annual pro-rated maintenance charges and non-recurring special project billings are collected from operating departments in support of this fund's activities.

MOTOR POOL FUND

This fund acquires and maintains vehicles and equipment, including heavy construction and maintenance items and police vehicles.

EQUIPMENT REVOLVING FUND

This fund acquires and maintains office equipment for all operations and provides for replacement of fire equipment, parks and recreation equipment and library equipment.

INSURANCE RISK RETENTION FUND

This fund is utilized to account for retroactive premium adjustments, as a provision for claims in excess of the City's insurance coverage, and for loss prevention and risk management initiatives.

LOCAL IMPROVEMENT REVOLVING FUND

This fund was established to provide a means for the internal financing of public improvements, where appropriate. Most monies loaned to other funds are to be repaid with interest.

EMPLOYEE INCENTIVE LOAN PROGRAM FUND

This fund was created to encourage City employees to choose Southfield as their city of residence and to support the City's goals of neighborhood stability and redevelopment. Monies loaned to employees as an incentive to purchase a home in Southfield are repaid over a period not to exceed seven years.

City of Southfield
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	Facilities Maintenance Fund	Motor Pool Fund	Equipment Revolving Fund	Insurance Risk Retention Fund	Local Improvement Revolving Fund	Employee Incentive Loan Program Fund	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 494,160	\$ 84,903	\$ 139,396	\$ 881,283	\$ 69,629	\$ 157,344	\$ 1,826,715
Investments	1,298,718	365,405	4,747,577	5,511,843	7,420,578		19,344,121
Receivables (net)	15,568	2,173	35,306	67,027	64,728	160	184,962
Prepays	6,004	19,803					25,807
Due from other funds	268,929	2,523,437	5,193,289	457,837	29,817		8,473,309
Due from component units					178,417		178,417
Restricted cash and cash equivalents				1,156,730			1,156,730
Inventory		340,217					340,217
Total current assets	<u>2,083,379</u>	<u>3,335,938</u>	<u>10,115,568</u>	<u>8,074,720</u>	<u>7,763,169</u>	<u>157,504</u>	<u>31,530,278</u>
Noncurrent assets:							
Long-term advances to other funds					7,353,815		7,353,815
Long-term advances to component units					5,685,075		5,685,075
Long-term advances to employees						53,608	53,608
Capital assets:							
Machinery and equipment	542,885	12,022,002	9,778,686				22,343,573
Less accumulated depreciation	(216,240)	(9,852,200)	(7,391,977)				(17,460,417)
Net capital assets	<u>326,645</u>	<u>2,169,802</u>	<u>2,386,709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,883,156</u>
Total noncurrent assets	<u>326,645</u>	<u>2,169,802</u>	<u>2,386,709</u>	<u>-</u>	<u>13,038,890</u>	<u>53,608</u>	<u>17,975,654</u>
Total assets	<u>2,410,024</u>	<u>5,505,740</u>	<u>12,502,277</u>	<u>8,074,720</u>	<u>20,802,059</u>	<u>211,112</u>	<u>49,505,932</u>
LIABILITIES							
Current liabilities:							
Accounts payable	328,554	130,328	22,738		118,225		599,845
Accrued payroll	37,973	19,370					57,343
Insurance payable				1,289,397			1,289,397
Workers' compensation payable				696,726			696,726
Due to other funds	7,400	75,276			820,679	5,958	909,313
Total current liabilities	<u>373,927</u>	<u>224,974</u>	<u>22,738</u>	<u>1,986,123</u>	<u>938,904</u>	<u>5,958</u>	<u>3,552,624</u>
Noncurrent liabilities:							
Accrued compensated absences	235,865	78,756					314,621
Total liabilities	<u>609,792</u>	<u>303,730</u>	<u>22,738</u>	<u>1,986,123</u>	<u>938,904</u>	<u>5,958</u>	<u>3,867,245</u>
NET ASSETS							
Invested in capital assets, net of related debt	326,645	2,169,802	2,386,709				4,883,156
Restricted for debt service				1,156,730			1,156,730
Unrestricted	<u>1,473,587</u>	<u>3,032,208</u>	<u>10,092,830</u>	<u>4,931,867</u>	<u>19,863,155</u>	<u>205,154</u>	<u>39,598,801</u>
Total net assets	<u>\$ 1,800,232</u>	<u>\$ 5,202,010</u>	<u>\$ 12,479,539</u>	<u>\$ 6,088,597</u>	<u>\$ 19,863,155</u>	<u>\$ 205,154</u>	<u>\$ 45,638,687</u>

The notes to the financial statements are an integral part of this statement.

City of Southfield

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

For the Year Ended June 30, 2006

	Facilities Maintenance Fund	Motor Pool Fund	Equipment Revolving Fund	Insurance Risk Retention Fund	Local Improvement Revolving Fund	Employee Incentive Loan Program Fund	Total
OPERATING REVENUES							
Charges for consumption and service	\$ 5,630,171	\$ 3,423,560	\$ 613,320				\$ 9,667,051
Other	124,688	193,420	187,301	\$ 704,488	\$ 385,303		1,595,200
Total operating revenue	5,754,859	3,616,980	800,621	704,488	385,303	-	11,262,251
OPERATING EXPENSES							
Administration	2,403,328	124,632					2,527,960
Equipment and facility operation:							
Equipment maintenance		1,978,739	162,072				2,140,811
Communications		389,249					389,249
Maintenance staff	1,251,825						1,251,825
Custodial staff	1,817,982						1,817,982
Depreciation and capital adjustments	92,535	1,161,864	1,049,067				2,303,466
Other			1,209	891,398	1,129	\$ 1,250	894,986
Total operating expenses	5,565,670	3,654,484	1,212,348	891,398	1,129	1,250	11,326,279
Operating income (loss)	189,189	(37,504)	(411,727)	(186,910)	384,174	(1,250)	(64,028)
NONOPERATING REVENUES (EXPENSES)							
Loss on disposition of assets		(9,014)					(9,014)
Investment income	84,213	8,387	147,449	200,483	286,582	2,695	729,809
Total nonoperating revenues (expenses)	84,213	(627)	147,449	200,483	286,582	2,695	720,795
Income before transfers	273,402	(38,131)	(264,278)	13,573	670,756	1,445	656,767
OTHER FINANCING USES							
Transfers out	(88,811)	(39,397)			(100,000)		(228,208)
Change in net assets	184,591	(77,528)	(264,278)	13,573	570,756	1,445	428,559
Total net assets - beginning	1,391,447	5,501,354	12,977,290	6,571,755	19,292,399	203,709	45,937,954
Prior period adjustment	224,194	(221,816)	(233,473)	(496,731)			(727,826)
Total net assets - ending	<u>\$ 1,800,232</u>	<u>\$ 5,202,010</u>	<u>\$ 12,479,539</u>	<u>\$ 6,088,597</u>	<u>\$ 19,863,155</u>	<u>\$ 205,154</u>	<u>\$ 45,638,687</u>

The notes to the financial statements are an integral part of this statement.

City of Southfield
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2006

	Facilities Maintenance Fund	Motor Pool Fund	Equipment Revolving Fund	Insurance Risk Retention Fund	Local Improvement Revolving Fund	Employee Incentive Loan Program Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from users	\$ 6,721,825	\$ 2,565,828	\$ 436,077	\$ 429,624	\$ 180,333	\$ (160)	\$ 10,333,527
Cash paid to employees	(2,596,836)	(1,122,647)		(526,141)			(4,245,624)
Cash paid to suppliers	(3,386,611)	(1,373,822)	(222,649)	(56,846)	629,022	4,694	(4,406,212)
Net cash provided by (used in) operating activities	<u>738,378</u>	<u>69,359</u>	<u>213,428</u>	<u>(153,363)</u>	<u>809,355</u>	<u>4,534</u>	<u>1,681,691</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Short-term advance within an interfund			(4,500,000)				(4,500,000)
Long-term advances					(2,966,793)		(2,966,793)
Long-term payments received from component units					207,110		207,110
Long-term advances to employees						(110)	(110)
Transfers out	(88,811)	(39,397)			(100,000)		(228,208)
Net cash used in noncapital and related financing activities	<u>(88,811)</u>	<u>(39,397)</u>	<u>(4,500,000)</u>	<u>-</u>	<u>(2,859,683)</u>	<u>(110)</u>	<u>(7,488,001)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchases of property and equipment	(36,146)	(293,401)	(419,745)				(749,292)
Net cash used in capital and related financing activities	<u>(36,146)</u>	<u>(293,401)</u>	<u>(419,745)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(749,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from sales and maturities of investments	(615,310)	283,575	4,617,180	110,808	1,331,528		5,727,781
Investment income	90,419	12,547	195,934	228,820	332,409	3,024	863,153
Net cash provided by investing activities	<u>(524,891)</u>	<u>296,122</u>	<u>4,813,114</u>	<u>339,628</u>	<u>1,663,937</u>	<u>3,024</u>	<u>6,590,934</u>
Net increase (decrease) in cash, cash equivalents	88,530	32,683	106,797	186,265	(386,391)	7,448	35,332
Cash, cash equivalents, beginning of year	405,630	52,220	32,599	695,018	456,020	149,896	1,791,383
Cash, cash equivalents, end of year	<u>\$ 494,160</u>	<u>\$ 84,903</u>	<u>\$ 139,396</u>	<u>\$ 881,283</u>	<u>\$ 69,629</u>	<u>\$ 157,344</u>	<u>\$ 1,826,715</u>
Reconciliation of operating income to net cash provided (used) by operating activities:							
Operating income (loss)	\$ 189,189	\$ (37,504)	\$ (411,727)	\$ (186,910)	\$ 384,174	\$ (1,250)	\$ (64,028)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:							
Depreciation and capital adjustments	92,535	1,161,864	1,049,067				2,303,466
Receivables	(8,662)	(2,173)	(35,306)	(67,027)	(64,728)	(160)	(178,056)
Prepays	2,310	5,997					8,307
Due from other funds	973,318	(990,924)	(329,238)	(207,837)	38,175		(516,506)
Due from component units		(340,217)			(178,417)		(518,634)
Inventory		276,165					276,165
Accounts payable	(96,756)	(15,234)	(59,368)	(24,251)	113,346	(14)	(82,277)
Accrued payroll	(19,580)	3,990					(15,590)
Accrued compensated absences	(25,762)	(5,997)					(31,759)
Insurance payable				332,662			332,662
Due to other funds	(368,214)	13,392			516,805	5,958	167,941
Net cash provided by (used in) operating activities	<u>\$ 738,378</u>	<u>\$ 69,359</u>	<u>\$ 213,428</u>	<u>\$ (153,363)</u>	<u>\$ 809,355</u>	<u>\$ 4,534</u>	<u>\$ 1,681,691</u>

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS

Fiduciary Funds or Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other City funds. These include Expendable, Nonexpendable, and Pension Trust Funds and Agency Funds. Expendable Trust and Agency Funds are accounted for and reported as Governmental Funds.

TRUST

PENSION TRUST

This fund accounts for employee and employer pension contributions, accumulated assets, administrative expenses, investment income and payments to beneficiaries.

RETIREE HEALTH CARE BENEFITS PLAN & TRUST

The fund accounts for employer post retirement health care contributions, accumulated assets, administrative expenses and investment income. Payments for beneficiaries are not anticipated until the reserves for post retirement health care benefits have been depleted in the pension trusts.

City of Southfield
Combining Statement of Fiduciary Net Assets
Pension (and Other Post-Employment Benefits) Trust Funds
June 30, 2006

	Employee Retirement	Fire and Police	Retiree Health Care Benefits Plan & Trust	Totals
ASSETS				
Cash equivalents	\$ 419,207	\$ 1,969,239	\$ 159,778	\$ 2,548,224
Investments, at fair value:				
Government obligations	9,724,085	7,991,689	2,012,450	19,728,224
Corporate bonds	4,396,007	41,192,684		45,588,691
Common stock	30,176,032	132,267,703	8,248,557	170,692,292
Real estate and other	45,131,995	26,651,580		71,783,575
Cash and investments held as collateral for securities				
lending - short term investments pools	13,204,475	20,550,128		33,754,603
Total investments	102,632,594	228,653,784	10,261,007	341,547,385
Receivables:				
Accrued investment income	488,446	972,164	20,914	1,481,524
Total assets	103,540,247	231,595,187	10,441,699	345,577,133
LIABILITIES				
Accounts payable	107,628		21,286	128,914
Obligations under securities				
lending agreements	13,204,475	20,550,128		33,754,603
Total liabilities	13,312,103	20,550,128	21,286	33,883,517
NET ASSETS				
Reserved for pension benefits	90,228,144	211,045,059		301,273,203
Reserved for post-retirement health care benefits			10,420,413	10,420,413
Total net assets	\$ 90,228,144	\$ 211,045,059	\$ 10,420,413	\$ 311,693,616

The notes to the financial statements are an integral part of this statement.

City of Southfield
Combining Statement of Changes in Fiduciary Net Assets
Pension (and Other Post-Employment Benefits) Trust Funds
For the Year Ended June 30, 2006

	Employee Retirement	Fire and Police	Retiree Health Care Benefits Plan & Trust	Totals
ADDITIONS				
Contributions:				
Plan members	\$ 1,789	\$ 844,273	\$ 49,213	\$ 895,275
Employer	<u>2,575,412</u>	<u>3,559,734</u>	<u>3,074,201</u>	<u>9,209,347</u>
Total contributions	2,577,201	4,404,007	3,123,414	10,104,622
Investment earnings:				
Net increase in				
fair value of investments	4,308,497	17,519,467	345,204	22,173,168
Interest	1,521,137	3,140,993	500,925	5,163,055
Dividends	<u>606,121</u>	<u>1,691,949</u>	<u>21,798</u>	<u>2,319,868</u>
Total investment earnings	6,435,755	22,352,409	867,927	29,656,091
Less investment expense:	406,695	656,559	7,926	1,071,180
Net investment earnings	<u>6,029,060</u>	<u>21,695,850</u>	<u>860,001</u>	<u>28,584,911</u>
Total additions	<u>8,606,261</u>	<u>26,099,857</u>	<u>3,983,415</u>	<u>38,689,533</u>
DEDUCTIONS				
Benefits	5,576,895	12,681,112	31,118	18,289,125
Health care expense	692,617	1,877,705		2,570,322
Administrative expense	<u>139,265</u>	<u>423,697</u>	<u>19,709</u>	<u>582,671</u>
Total deductions	<u>6,408,777</u>	<u>14,982,514</u>	<u>50,827</u>	<u>21,442,118</u>
Net increase	2,197,484	11,117,343	3,932,588	17,247,415
Net assets - beginning	<u>88,030,660</u>	<u>199,927,716</u>	<u>6,487,825</u>	<u>294,446,201</u>
Net assets - ending	\$ <u>90,228,144</u>	\$ <u>211,045,059</u>	\$ <u>10,420,413</u>	\$ <u>311,693,616</u>

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS

AGENCY

DEPOSITS AND ESCROW

This fund is for builders' cash bonds and similar escrow deposits.

IMPREST PAYROLL

This fund is a clearing-account for payroll disbursements which is replenished from other funds.

46TH DISTRICT COURT

This fund is for the activity of adjoining municipalities served by the 46th District Court of the State of Michigan. The City acts as district control unit for the 46th District Court.

City of Southfield
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

	Deposits and Escrow	Imprest Payroll	46th District Court	Totals
ASSETS				
Cash and cash equivalents	\$ 104,766	\$ 39,687	\$ 1,239,461	\$ 1,383,914
Investments	<u>3,831,033</u>			<u>3,831,033</u>
Total assets	<u>\$ 3,935,799</u>	<u>\$ 39,687</u>	<u>\$ 1,239,461</u>	<u>\$ 5,214,947</u>
LIABILITIES				
Accounts payable	\$ 10,297	\$ 39,687		\$ 49,984
Deposits and escrow	3,925,502		\$ 166,556	4,092,058
Due to other governmental units			<u>1,072,905</u>	<u>1,072,905</u>
Total liabilities	<u>\$ 3,935,799</u>	<u>\$ 39,687</u>	<u>\$ 1,239,461</u>	<u>\$ 5,214,947</u>

The notes to the financial statements are an integral part of this statement.

City of Southfield
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2006

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
DEPOSITS AND ESCROW				
ASSETS				
Cash equivalents	\$ 47,100	\$ 1,346,618	\$ 1,288,952	\$ 104,766
Investments	3,491,833	894,111	554,911	3,831,033
Receivables, net	17,761	24,009	41,770	-
TOTAL ASSETS	\$ 3,556,694	\$ 2,264,738	\$ 1,885,633	\$ 3,935,799
LIABILITIES				
Accounts payable	\$ 12,400	\$ 500,631	\$ 502,734	\$ 10,297
Deposits and escrow	3,465,700	1,303,884	844,082	3,925,502
Due to other funds	78,594	262,512	341,106	-
TOTAL LIABILITIES	\$ 3,556,694	\$ 2,067,027	\$ 1,687,922	\$ 3,935,799
IMPREST PAYROLL				
ASSETS				
Cash equivalents	\$ 2,613,583	\$ 142,570,736	\$ 145,144,632	\$ 39,687
Receivables, net	20,646	323,448	344,094	-
Due from other funds	281,284	78,105,771	78,387,055	-
Due from fiduciary	17,438	93,085	110,523	-
Due from component units	63,368	362,138	425,506	-
TOTAL ASSETS	\$ 2,996,319	\$ 221,455,178	\$ 224,411,810	\$ 39,687
LIABILITIES				
Accounts payable	\$ 2,011,276	\$ 71,400,762	\$ 73,372,351	\$ 39,687
Due to other funds	984,400	69,670	1,054,070	-
Due to component units	643		643	-
TOTAL LIABILITIES	\$ 2,996,319	\$ 71,470,432	\$ 74,427,064	\$ 39,687

The notes to the financial statements are an integral part of this statement.

City of Southfield
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2006

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
46th DISTRICT COURT				
ASSETS				
Cash equivalents	\$ 971,583	\$ 267,878		\$ 1,239,461
TOTAL ASSETS	<u>\$ 971,583</u>	<u>\$ 267,878</u>	<u>\$ -</u>	<u>\$ 1,239,461</u>
LIABILITIES				
Deposits and escrow	\$ 174,998		\$ 8,442	\$ 166,556
Due to other governmental units	796,585	\$ 276,320		1,072,905
TOTAL LIABILITIES	<u>\$ 971,583</u>	<u>\$ 276,320</u>	<u>\$ 8,442</u>	<u>\$ 1,239,461</u>
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash equivalents	\$ 3,632,266	\$ 144,185,232	\$ 146,433,584	\$ 1,383,914
Investments	3,491,833	894,111	554,911	3,831,033
Receivables, net	38,407	347,457	385,864	-
Due from other funds	281,284	78,105,771	78,387,055	-
Due from fiduciary	17,438	93,085	110,523	-
Due from component units	63,368	362,138	425,506	-
TOTAL ASSETS	<u>\$ 7,524,596</u>	<u>\$ 223,987,794</u>	<u>\$ 226,297,443</u>	<u>\$ 5,214,947</u>
LIABILITIES				
Accounts payable	\$ 2,023,676	\$ 71,901,393	\$ 73,875,085	\$ 49,984
Deposits and escrow	3,640,698	1,303,884	852,524	4,092,058
Due to other funds	1,062,994	332,182	1,395,176	-
Due to component units	643		643	-
Due to other governmental units	796,585	276,320		1,072,905
TOTAL LIABILITIES	<u>\$ 7,524,596</u>	<u>\$ 73,813,779</u>	<u>\$ 76,123,428</u>	<u>\$ 5,214,947</u>

The notes to the financial statements are an integral part of this statement.

(continued)

City of Southfield
Combining Balance Sheet
Discretely Presented Component Units
June 30, 2006

	Local Development Finance Authority	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Re-development Authority	Joint Local Development Finance Authority	Downtown Development Authority	Totals
ASSETS							
Cash and cash equivalents	\$ 1,506,727	\$ 153,289	\$ 28,891	\$ 3,092	\$ 381,911	\$ 331,085	\$ 2,404,995
Investments		6,158,732	74,052			1,501,151	7,733,935
Receivables:							
Accrued interest	3,378	44,671	935	3	856	13,590	63,433
Other	61,942	275,615	600	29,017		255,141	622,315
Prepays						1,365	1,365
Due from primary government	170,935	82,225				116,834	369,994
Total assets	<u>1,742,982</u>	<u>6,714,532</u>	<u>104,478</u>	<u>32,112</u>	<u>382,767</u>	<u>2,219,166</u>	<u>11,196,037</u>
LIABILITIES							
Accounts payable		1,029	200	465		7,739	9,433
Accrued payroll						5,711	5,711
Due to primary government			3,147	11,000	14,006	178,417	206,570
Due to other governmental units		3,185,760					3,185,760
Deferred revenue	79,300	388,999				320,948	789,247
Advances from local improvement revolving fund						67,013	67,013
Total liabilities	<u>79,300</u>	<u>3,575,788</u>	<u>3,347</u>	<u>11,465</u>	<u>14,006</u>	<u>579,828</u>	<u>4,263,734</u>
FUND BALANCE							
Reserved for encumbrances	90,718	1,251				3,777	95,746
Unreserved:							
Undesignated	1,572,964	3,137,493	101,131	20,647	368,761	1,635,561	6,836,557
Total fund balance	<u>1,663,682</u>	<u>3,138,744</u>	<u>101,131</u>	<u>20,647</u>	<u>368,761</u>	<u>1,639,338</u>	<u>6,932,303</u>
Total liabilities and fund balances	<u>\$ 1,742,982</u>	<u>\$ 6,714,532</u>	<u>\$ 104,478</u>	<u>\$ 32,112</u>	<u>\$ 382,767</u>	<u>\$ 2,219,166</u>	<u>\$ 11,196,037</u>

The notes to the financial statements are an integral part of this statement.

City of Southfield

Reconciliation of the Balance Sheet - Discretely Presented Component Units to the Statement of Net Assets June 30, 2006

Fund balance for governmental activities	\$ 6,932,303
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Amounts reported for governmental activities
in the statement of net assets are different
because:

Long-term liabilities are not due and payable in the
current period and therefore are not reported in the funds:

Compensated absences - long-term	(80,709)
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Advances from internal service - long-term	(5,277,470)
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Other long-term assets are not available to pay for current- period expenditures and, therefore, are deferred in the funds	662,967
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Michigan tax tribunal loss	<u>(953,261)</u>
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Government-wide net assets of governmental activities	\$ <u>1,283,830</u>
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The notes to the financial statements are an integral part of this statement.

City of Southfield
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Component Units
For the Year Ended June 30, 2006

	Local Development Finance Authority	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Re-development Authority	Joint Local Development Finance Authority	Downtown Development Authority	Totals
REVENUES							
Taxes	\$ 1,508,581	\$ 1,128,089			\$ 259,676	\$ 788,650	\$ 3,684,996
Charges for services						265,795	265,795
Investment income	29,634	167,609	\$ 3,858	\$ 86	5,891	54,488	261,566
Other	227,484			11,000		57,270	295,754
Total revenues	<u>1,765,699</u>	<u>1,295,698</u>	<u>3,858</u>	<u>11,086</u>	<u>265,567</u>	<u>1,166,203</u>	<u>4,508,111</u>
EXPENDITURES							
Administration	87,935	67,977	2,305	5,334		296,597	460,148
Community improvement	13,447		39,505	7,473		201,171	261,596
Interest						18,601	18,601
Other	664,227	815,627	16,335	130	14,006	131,737	1,642,062
Total expenditures	<u>765,609</u>	<u>883,604</u>	<u>58,145</u>	<u>12,937</u>	<u>14,006</u>	<u>648,106</u>	<u>2,382,407</u>
Net change in fund balances	1,000,090	412,094	(54,287)	(1,851)	251,561	518,097	2,125,704
Fund balances - beginning	(4,161,024)	2,823,754	155,418	18,879	117,200	719,925	(325,848)
Prior period adjustment	<u>4,824,616</u>	<u>(97,104)</u>		<u>3,619</u>		<u>401,316</u>	<u>5,132,447</u>
Fund balances - ending	<u>\$ 1,663,682</u>	<u>\$ 3,138,744</u>	<u>\$ 101,131</u>	<u>\$ 20,647</u>	<u>\$ 368,761</u>	<u>\$ 1,639,338</u>	<u>\$ 6,932,303</u>

The notes to the financial statements are an integral part of this statement.

City of Southfield

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances Discretely Presented Component Units to the Statement of Activities For the Year Ended June 30, 2006

Net change in fund balances – total governmental funds	\$ 2,125,704
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(465,161)
Delinquent personal property taxes are recorded in the statement of activities when the tax is assessed; they are not reported in the funds until collected or collectable within 60 days of year end	(126,280)
Michigan tax tribunal liability	<u>(953,261)</u>
Change in net assets government-wide statement of governmental activities	<u>\$ 581,002</u>

The notes to the financial statements are an integral part of this statement.

City Of Southfield, Michigan
Governmental Expenditures By Function (1)
Last Ten Fiscal Years

Fiscal Year Ending Jun 30	General Gov't. (2)	Public Safety	Highways And Streets	Public Services	Parks And Recreation	Library	Debt Service	Total
1997	23,135,329	31,672,422	7,998,167	3,531,327	7,847,961	3,055,335	4,314,461	81,555,002
1998	26,082,932 (3)	34,006,634	9,139,233	3,473,784	6,241,204 (4)	3,028,802	4,110,039	86,082,628
1999	21,630,126	33,219,119	11,062,784	3,697,838	6,206,639 (4)	2,929,199	3,997,913	82,743,618
2000	24,919,150 (5)	34,579,263	7,088,625	3,514,649	7,499,912	3,011,721	3,492,086	84,105,406
2001	25,621,771 (6)	36,041,768	15,483,061 (7)	3,877,770	8,009,409	3,151,360	4,178,052	96,363,191
2002	39,924,173 (8)	36,811,296	14,950,758	3,858,964	8,164,746	3,260,348	4,464,042	111,434,327
2003	42,634,591 (9)	37,987,626	15,905,920	4,375,788	8,062,432	3,976,496	2,906,794	115,849,647
2004	33,122,785	40,575,743	9,938,064	4,051,890	7,815,285	5,237,244	2,323,407	103,064,418
2005	25,951,115	42,957,930	10,233,510	4,169,299	7,792,691	5,560,470	3,593,950	100,258,965
2006	27,880,141	43,448,812	15,961,926 (10)	4,147,408	7,853,946	5,680,736	3,678,425	108,651,394

Notes:

- (1) Includes general, special revenue, capital projects, debt service funds and governmental component units. Does not include fiduciary funds or non-profit housing.
- (2) Includes all expenditures not shown separately and all governmental component unit expenditures
- (3) Included \$2.746 million in capital renovations.
- (4) Golf course activity recorded in an enterprise fund.
- (5) Included \$2.057 million in capital projects for golf course renovations.
- (6) Includes \$3.764 million in Library construction.
- (7) Includes \$6.955 million in bridge construction. Also reflects increases in road maintenance and construction, expenditures for I-696 freeway system improvements, and fluctuations in the timing of engineering and other internal charges for capital projects at various stages of completion.
- (8) Includes \$13.640 million for Library construction, \$2.052 million for ball field construction, \$569,000 for DPW garage roof repair project and \$218,000 for Public Safety locker room improvements.
- (9) Includes \$11.405 million for Library construction, \$255,460 for ballfield construction, \$222,560 for DPW garage roof repair project, \$89,061 for Civic Center improvements, \$37,899 for Cable renovations, \$59,683 for Fire Hall #5 improvements and \$24,739 for the Court Building improvements.
- (10) Includes \$9.6 million for Major Street construction financed through a \$12.5 million MTF bond.

City Of Southfield, Michigan

**Governmental Revenues By Source (1)
Last Ten Fiscal Years**

Fiscal Year Ending Jun 30	<u>Taxes (2)</u>	<u>Licenses And Permits</u>	<u>Inter- Governmental</u>	<u>Charges For Services</u>	<u>Fines And Forfeitures</u>	<u>Investment Income</u>	<u>Other</u>	Total
1997	42,466,821	1,854,389	15,576,986	12,552,355	2,391,973	4,726,941	1,248,090	80,817,555
1998	43,910,070	2,082,963	17,258,616	11,938,296	2,323,022	3,923,085 (4)	1,960,781	83,396,833
1999	46,720,100	2,214,635	17,388,222	8,524,990	2,634,593	3,868,293 (4)	1,649,158	82,999,991
2000	48,720,484	2,321,821	17,658,307	9,674,002	3,187,397	3,274,632 (4)	2,148,768 (5)	86,985,405
2001	50,997,335 (3)	2,338,782	19,999,755	8,392,034	3,223,027	6,305,946 (4)	2,339,753	93,596,632
2002	52,855,386	2,504,585	19,827,155	8,843,399	3,879,502	6,432,134 (4)	1,915,360	96,257,521
2003	55,970,688	2,138,586	17,900,571	8,139,017	3,269,811	1,939,730 (4)	1,823,955	91,182,358
2004	54,873,260	2,139,257	21,515,052	7,637,466	3,654,601	391,341 (4)	5,574,413 (6)	95,421,390
2005	59,767,903	2,284,166	19,171,434	8,940,553	3,448,333	1,414,476 (4)	2,284,065	97,310,930
2006	61,123,776	2,415,319	18,751,676	9,670,330	4,541,759	2,389,658	3,592,894	102,485,412

Notes:

- (1) Includes general, special revenue, capital, debt service funds, and component units. Does not include non-profit housing.
- (2) Includes all levies, fees, penalties and interest related to ad valorem taxes.
- (3) Includes first year of full levy of Library millage approved by the City's voters on March 9, 1999.
- (4) Adjusted for increase (decrease) in fair market value of investments in accordance with GASB 31.
- (5) Included \$682,638 sale of property.
- (6) Includes \$3,350,000 sale of building.

City Of Southfield, Michigan

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ending Jun 30	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Real Tax Reimburse	Delinquent Personal Tax Collections	Total Tax Collections	Percent Of Total Tax Collect. To Tax Levy	Out- standing Delinq. Personal Taxes	Percent of Delinq. Taxes To Tax Levy
1997	\$ 39,451,424	\$ 38,159,687	96.8%	\$ 1,017,902	\$ 54,445	\$ 39,232,034	99.5%	\$ 219,390	0.5%
1998	40,826,342	39,085,268	95.7	1,301,668	60,048	40,446,984	99.1	191,941	0.5
1999	43,396,062	41,713,067	96.1	1,449,925	68,630	43,231,622	99.6	203,305	0.5
2000	44,827,185	43,086,171	96.1	1,531,350	67,295	44,617,521	99.5	209,664	0.5
2001	47,637,367 *	45,397,597	95.3	1,763,241	25,252	47,160,838	99.0	476,529	1.0
2002	48,423,568	45,844,481	94.7	2,066,704	11,574	47,911,185	98.9	512,383	1.1
2003	50,904,589	47,932,449	94.2	2,372,308	58,622	50,304,756	98.8	599,832	1.2
2004	52,521,185	49,823,413	94.9	2,154,404	40,969	52,018,785	99.0	539,288	1.0
2005	54,916,497	52,142,667	94.9	2,286,487	37,729	54,466,883	99.2	487,285	0.9
2006	56,401,493	53,191,336	94.3	2,775,221	37,174	56,003,731	99.3	385,036	0.7

* Reflects first year of full levy of Library millage approved by the City's voters on March 9, 1999.

City Of Southfield, Michigan

Assessed Value (AV) Of Taxable Property
Last Ten Fiscal Years

State Equalized Valuation (SEV) (1) / Taxable Valuation (TV) (2)

FY Ending 30-Jun	Real Property(AV)	Personal Property(AV)	Total Property(SEV)	TV	Increase
1997	\$ 2,034,464,139	\$ 449,214,700	\$ 2,483,678,839	\$ 2,425,365,701	TV 3.7 %
1998	2,172,866,966	468,287,000	2,641,153,966	2,514,270,106	TV 3.7
1999	2,526,692,210	532,421,094	3,059,113,304	2,707,964,479	TV 7.7
2000	2,682,684,450	562,771,170	3,245,455,620	2,825,989,180	TV 4.4
2001	2,955,145,140	497,451,340	3,452,596,480	2,929,875,361	TV 3.7
2002	3,159,012,430	513,878,170	3,672,890,600	3,078,615,673	TV 5.1
2003	3,416,720,080	519,877,800	3,936,597,880	3,230,941,830	TV 4.9
2004	3,583,436,040	457,372,200	4,040,808,240	3,268,025,510	TV 1.1
2005	3,727,441,360	452,521,050	4,179,962,410	3,386,748,000	TV 3.6
2006	3,800,543,077	437,831,900	4,238,374,977	3,482,084,152	TV 2.8

Notes:

(1) In accordance with the 1970 State of Michigan Constitution, SEV is 50% of appraised or estimated fair market value.

(2) On March 15, 1994, Michigan voters approved changes in the property tax system which affects municipal budgets by placing a cap on taxable value (TV) that is used to compute property tax revenues. Under the changes, effective with the 1995-96 fiscal year, real property assessed value (AV) continues to be adjusted to reflect fair market value, while the taxable value adjustment is limited to the lesser of 5% or the rate of inflation provided the property remained in the same ownership. Upon a property transfer, the cap is removed the following year, increasing the taxable value to the same level as the assessed value, thus established a new base for the again capped taxable value. Previously, real property was adjusted to market value for tax purposes on an annual basis and was not subject to a per parcel limitation or cap. Prior to the 1995-96 fiscal year, all assessed value was taxable. Now, and in the future, some growth in assessed value will not be taxable. The traditional terminology of "State Equalized Value" (SEV) still exists. However, since SEV no longer represents the tax revenue producing power of a municipality, the term "taxable value" is now the fiscally relevant terminology.

City of Southfield, Michigan

Property Tax Rates (Per \$1,000 of Taxable Assessed Value)

Fiscal Year Ending June 30	General Fund			Special Revenue Funds				Debt Service Funds				Total All Rates
	Operating	Public Safety Expansion	Fire & Police Retirement	Parks & Rec.	Library	Street Maint.	Public Act 298 of 1917	Drains At Large	G.O. Road	G.O. Park	Building Authority	
1997	6.957	2.981	1.811	1.739	0.994	0.994	0.476				0.510	16.462
1998	6.957	2.981	1.822	1.739	0.994	0.994	0.476				0.489	16.452
1999	6.900	2.957	1.726	1.725	0.986	0.986	0.455				0.492	16.227
2000	6.829	2.927	1.382	1.707	1.305	0.975	0.455				0.468	16.048
2001	6.645	2.848	1.350	1.661	2.105	0.949	0.508				0.380	16.446
2002	6.609	2.833	1.291	1.652	2.093	0.944	0.535				0.307	16.264
2003	6.609	2.833	1.301	1.652	2.093	0.944	0.440				0.275	16.147
2004	6.609	2.833	1.458	1.652	2.093	0.944	0.491				0.262	16.342
2005	6.609	2.833	1.602	1.652	2.093	0.944	0.423	0.159			0.028	16.343
2006	6.609	2.833	1.710	1.652	2.093	0.944	0.423	0.079			0.000	16.343

ALL OVERLAPPING GOVERNMENTS

Fiscal Year Ending June 30	General Fund	Special Revenue Funds	Debt Service Funds	Total City	Southfield Public School	Oakland County Intermediate	Oakland County Operating Levy	Oakland County Community College	Total *	City % of Total	Birmingham Public School +	Oak Park Public School +
1997	11.749	4.203	0.510	16.462 **	30.494	2.129	5.178	1.652	55.915	29.4	19.770	14.300
1998	11.760	4.203	0.499	16.462 **	30.246	2.129 ++	5.148	1.652	55.668	29.6	19.010	14.300
1999	11.584	4.152	0.492	16.227 **	29.881	2.121 ++	4.986	1.646	54.862	29.6	20.010	14.300
2000	11.137	4.443	0.468	16.048 **	29.665	2.100 ++	4.979	1.630	54.421	29.5	19.700	14.298
2001	10.843	5.223	0.380	16.446 **	28.909	3.453 ++	4.965	1.595	55.368	29.7	18.485	14.272
2002	10.733	5.225	0.307	16.264	28.909	3.453	4.965	1.595	55.738	29.2	18.485	14.273
2003	10.748	5.130	0.275	16.153	28.895	3.422	5.252	1.609	55.331	29.2	17.751	14.173
2004	10.900	5.181	0.262	16.343	27.895	3.400	5.247	1.598	54.481	30.0	16.427	12.310
2005	11.044	5.113	0.187	16.343	27.895	3.379	5.244	1.589	54.449	30.0	18.413	13.000
2006	11.152	5.112	0.079	16.343	27.893	3.369	5.241	1.584	54.430	30.0	18.210	13.000

* Southfield Public Schools are used in the example because their portion of taxable assessed valuation (\$2,865,225,040) is the largest in the City. Comparative rates are presented for Birmingham and Oak Park Schools.

** Rate includes 6 mills for state education.

+ Homestead rate used.

++ Includes Suburban Mobility Authority Regional Transportation (S.M.A.R.T) tax.

**Special Assessment Billings And Collections
Last Ten Fiscal Years**

Fiscal Year Ending June 30	Current Assessment Billing					Current Assessments Collected	Ratio Of Collections To Amount Due	Total Assessments Outstanding
	New Projects	Prior Projects		Total				
		Principal	Interest					
1997	\$ 0	\$ 138,421	\$ 53,048	\$ 191,469	\$ 200,282	\$ 105.0	\$ 642,173	
1998	18,186	129,439	41,533	189,158	203,153	108.0	559,148	
1999	19,167	124,759	32,354	176,280	157,098	90.0	494,989	
2000	8,975	88,584	29,528	127,087	111,574	88.0	375,120	
2001	5,950	93,105	22,122	121,177	101,646	84.0	304,348	
2002	37,504	99,433	18,188	155,125	136,818	88.0	914,959	
2003	0	91,637	43,484	135,121	118,973	88.0	770,249	
2004	73,282	83,979	45,512	202,773	174,370	85.0	1,162,065	
2005	179,710	387,913	48,477	616,100	413,297	67.1	1,127,136	

City Of Southfield, Michigan

Computation of Direct and Overlapping Debt at June 30, 2006

		<u>Principal Amount Outstanding</u>	<u>Debt Principal Per Capita (1) (Pop. 78,296)</u>	<u>% Of State Equalized Value \$ 4,238,374,977</u>
DIRECT AND INDIRECT DEBT				
<u>Direct Debt</u>				
General Obligation Bonds-Limited Tax		\$ 4,900,000		
Building Authority Bonds		29,230,000		
Water & Sewer Revenue Bonds		30,163,789		
Michigan Transportation Fund Bonds		12,500,000		
Direct Debt		76,793,789	\$ 980.81	1.81 %
<u>Indirect Debt</u>				
Oakland County Contractual Obligations:				
- Drains At Large	\$ 9,744,288			
- Evergreen/Farmington Sewage Disposal	3,805,949			
Indirect Debt		13,550,237	173.06	0.32
Gross Debt		90,344,026	1,153.88	2.13
<u>Less Deductions</u>				
Funds on hand to repay principal				
Building Authority	7,254			
Drains at Large	488,475			
Total Deductions		495,729	6.33	0.01
Net City Debt		89,848,297	1,147.55	2.12
<u>OVERLAPPING DEBT (2)</u>				
Southfield School District	94.88% %	\$ 94,528,944		
Oak Park School District	23.05	1,811,730		
Birmingham School District	2.75	6,609,350		
Oakland County at Large	6.05	5,870,258		
Oakland County Intermediate School District	6.07	620,354		
Oakland County Community College	6.09	680,558		
Overlapping Debt		110,121,194	1,406.47	2.60
		<u>\$ 199,969,491</u>	<u>\$ 2,554.02</u>	<u>4.72</u>

Note:

(1) Final 2000 census data from the U.S. Census Bureau.

(2) Overlapping debt figures supplied by the Michigan Advisory Council, Detroit, Michigan.

City Of Southfield, Michigan

**Statement of Legal Debt Margin
June 30, 2006**

		Debt Margin Calculation		Applicable Percentage	Statutory Limit
		Gross Indebtedness	Statutory (1) Deductions		
State Equalized Value at 12/31/04				100 %	\$ 4,238,374,977
Debt Subject to Statutory Limitation					
General Obligation Bonds-Limited Tax	\$ 4,900,000		\$ 4,900,000		
Building Authority Bonds	29,230,000		29,230,000		
Oakland County Contractual Obligations-Drains	9,744,288		9,744,288		
Oakland County Contractual Obligations-Water	3,805,949		3,805,949		
Michigan Transportation Fund Bond	12,500,000		12,500,000		
Restricted Indebtedness	60,180,237		60,180,237	10	423,837,498
Emergency Bonds				0.375	15,893,906
Special Assessment Bonds				12	508,604,997
Total	60,180,237		\$ 60,180,237		\$ 948,336,401
State of Michigan Water Supply and Sewage Disposal Revenue Bonds					
Series to 6/30/02					
1998A (LTGO) 2.25%	1,372,048				
1998B (LTGO) 2.50%	10,615,000				
1999 (LTGO) 2.50%	9,966,741				
2000 (LTGO) 2.50%	8,210,000				
Total Water & Sewage Disposal Revenue Bonds			\$ 30,163,789		
Gross City Debt			\$ 90,344,026		

Notes:

(1) Deductions are allowed for restricted bond and interest redemption deposits held by fiscal agents.

City Of Southfield, Michigan

**Ratio of Net General Debt To Assessed Value
And Net Bonded Debt Per Capita
Last Ten Fiscal Years**

Fiscal Year Ending June 30	Population	Taxable Value	Bonded Debt ⁽¹⁾	Less Funds Available In Debt Service Funds	Net Bonded Debt	Ratio Of Net Bonded Debt To Taxable Value	Net Bonded Debt Per Capita
1997	75,728	\$ 2,425,365,701	\$ 11,653,289	\$ 2,079,666	\$ 9,573,623	0.39%	\$ 126.42
1998	75,728	2,514,270,106	10,059,005	1,322,519	8,736,486	0.35	115.37
1999	75,728	2,707,964,479	8,442,845	1,539,685	8,442,845	0.31	111.49
2000	76,240	2,825,989,180	7,040,382	1,641,133	5,399,249	0.19	70.80
2001	78,296 ⁽²⁾	2,929,875,361	37,283,425	2,505,457	34,777,968	1.19	444.19
2002	78,296	3,078,615,673	42,991,736	2,283,942	40,707,794	1.32	519.92
2003	78,296	3,230,941,830	41,391,437	1,931,390	39,460,047	1.22	503.99
2004	78,296	3,268,025,510	49,070,764	1,277,020	47,793,744	1.46	610.42
2005	78,296	3,386,748,000	61,849,781	825,031	61,024,750	1.80	779.00
2006	78,296	3,482,084,152	60,180,237	484,670	59,695,567	1.71	762.43

**Ratio of Annual Debt Service Expenditures
For General Bonded Debt to Total General Expenditures
Last Ten Fiscal Years**

Fiscal Year Ending June 30	Principal	Debt Service Requirements Interest	Total	Total ⁽³⁾ General Expenditures	Ratio Of Debt Service To Expenditures
1997	\$ 2,697,360	\$ 1,617,101	\$ 4,314,461	\$ 77,240,541	5.6
1998	2,757,506	1,352,533	4,109,998	81,972,589	5.0
1999	2,716,949	1,280,963	3,997,912	78,745,705	5.1
2000	2,567,589	924,497	3,492,086	84,105,406	4.2
2001	2,688,985	1,489,067	4,178,052	96,369,159 ⁽⁴⁾	4.3
2002	2,143,970	2,320,072	4,464,042	111,434,327 ⁽⁴⁾	4.2
2003	2,007,382	2,258,065	4,265,447	115,849,647	3.7
2004	4,108,847 ⁽⁵⁾	1,980,810	6,089,657	103,185,170	5.9
2005	1,050,703 ⁽⁶⁾	2,124,653	3,175,356	99,418,921	3.2
2006	1,790,844	2,510,103	4,300,947	99,838,380	4.3

Notes:

- (1) Only includes general obligation debt that is being repaid through general property taxes .
- (2) Final census data from U.S. Census Bureau.
- (3) Includes general, special revenue, capital, and component units.
- (4) See S-1, notes 8-10.
- (5) Includes bond call.
- (6) Excludes bonds defeased in the amount of \$27,175,000.

City Of Southfield, Michigan

Demographic Statistics Last Ten Fiscal Years

Fiscal Year Ending Jun 30	Population (1)	Per Capita Income (2)	Median Age (2)	School Enrollment (3)	Unemployment Rate Percentage (4)	Retail Sales (000) (2)
1996	75,728	\$ 22,232	38.9	9,493	3.6%	\$ 1,976,412
1997	75,728	22,385	35.0	9,423	4.5	2,005,945
1998	75,728	22,927	35.2	9,497	2.5	1,964,170
1999	75,728	24,248	35.4	9,539	2.8	2,118,796
2000	76,240	24,983	35.7	9,472	2.5	2,802,830
2001	78,296	27,023	35.9	9,878	4.2	2,764,128
2002	78,296	23,835	35.7	10,195	5.9	2,802,830
2003	78,296	27,023	35.9	10,631	5.9	2,764,128
2004	78,296	23,485	36.2	10,007	5.5	2,342,814
2005	78,296	21,990	36.2	10,099	7.9	2,315,321
2006	78,296	22,501	36.8	9,916	7.7	2,029,972

Notes:

- (1) 1990/2000 Census Data From U.S. Census Bureau.
- (2) Survey of Buying Power: Sales and Marketing Management; New York, N.Y.
- (3) Southfield Public Schools, Southfield, Michigan.
- (4) Michigan Employment Security Commission.

City Of Southfield, Michigan

Summary of Demand and Savings Deposits By Type of Institution Last Ten Years

Fiscal Year Ending June 30	Deposits (\$000s) (1)			
	Banks	Savings & Loans	Credit Unions	Total
1997	\$ 1,687,794	\$ 213,232	\$ 285,517	\$ 2,186,543
1998	1,709,550	199,631	251,493	2,160,674
1999	1,749,153	205,497	361,260	2,315,910
2000	1,687,103	201,559	365,564	2,254,226
2001	1,675,724	204,657	413,600	2,293,981
2002	1,740,019	81,884	460,345	2,282,248
2003	2,155,684	64,118	176,305	2,396,107
2004	2,173,735	319,689	180,715	2,674,139
2005	2,531,775	448,226	183,597	3,163,598
2006	3,069,918	464,982	182,939	3,717,839

Note:

(1) The deposit information is from F.D.I.C. data contained in Highline Data: The Branches of Michigan; 2007 Banks, Savings and Loans, Credit Unions & Savings Banks.

City Of Southfield, Michigan

**Construction And Property Value
Last Ten Calendar Years**

Annual Construction By Category

--- Commercial & Industrial---

----- Multi-Family -----

---- Single Family ----

Calendar Year	Number Of Units	Value	Number Of Units	Value	Number Of Units	Value
1997	14	\$ 24,474,189	7	\$ 3,067,213	71	\$ 7,923,954
1998	16	21,114,531	7	13,983,121	86	9,315,118
1999	19	33,246,905	7	3,541,000	64	7,352,721
2000	10	26,149,331	16	6,957,850	64	8,886,653
2001	22	72,066,172	16	6,319,025	38	5,129,541
2002	16	27,292,518	17	8,574,664	53	7,892,462
2003	13	26,300,486	7	4,695,068	79	15,530,225
2004	8	16,210,000	8	2,957,145	69	11,613,829
2005	12	27,060,063	0	0	71	10,531,501
2006	4	12,496,655	4	2,634,073	39	7,884,206

Property S.E.V. By Category

	<u>Commercial</u>	<u>Industrial</u>	<u>Residential</u>
1997	\$ 1,099,749,470	\$ 41,967,890	\$ 1,031,149,606
1998	1,357,858,040	42,187,340	1,126,646,830
1999	1,393,435,480	43,139,320	1,246,109,650
2000	1,546,801,740	52,091,540	1,356,251,860
2001	1,603,662,800	55,278,190	1,500,071,440
2002	1,721,234,450	58,111,090	1,637,374,540
2003	1,773,624,540	60,869,190	1,748,942,310
2004	1,807,791,760	64,334,500	1,855,315,100
2005	1,801,405,640	64,725,410	1,934,412,027
2006	1,811,935,070	59,482,360	1,999,219,340

City Of Southfield, Michigan
Economic and Statistical History
June 30, 2006

AREA

26.7 square miles (since incorporation)

POPULATION

U.S. CENSUS Age Distrib.	1980 Number	%	1990 Number	%	2000 Number	%
24 and under	24,701	32.7%	22,101	29.2%	23,089	29.5%
25 through 64	39,775	52.6	40,777	53.8	43,319	55.3
65 and older	11,092	14.7	12,850	17.0	11,888	15.2
Total Persons	75,568	100.0%	75,728	100.0%	78,296	100.0%

Income Distrib.	Number	%	Number	%	Number	%
\$ 5,000 and under	1,652	5.6%	1,097	3.4%		
5,000 - 9,999	2,543	8.6	1,774	5.5	2,242	6.6%
10,000 - 14,999	3,038	10.2	1,951	6.1	1,412	4.2
15,000 - 24,999	6,634	22.4	3,988	12.4	3,495	10.3
25,000 and over	15,798	53.2	23,331	72.6	26,822	78.9
Total						
Households	29,665	100.0%	32,141	100.0%	33,971	100.0%

**BUILDING
CONSTRUCTION**

Year	Permits	Value	Year	Permits	Value
1997	1,632	90,639,649	2002	1,461	99,472,942
1998	1,215	98,718,600	2003	1,231	109,138,521
1999	1,571	102,308,381	2004	1,368	78,239,744
2000	1,627	95,642,461	2005	1,263	110,358,912
2001	1,460	129,443,898	2006	1,259	80,260,782

Economic and Statistical History (cont.)

WATER & SEWER SERVICES

Users/Consumers: 18,360 Water and Sewer combined; 162 Sewer only.
Use & Consumption: 598,305,000 cubic feet purchased
System Capacity: 34 million gallons per day (MGD)
Distribution System: Southeastern Oakland County Water Authority consisting of 11 communities. Ten are active with their own systems.
Water Mains: 354.80 miles
Fire Hydrants: 3,570
Sewer Mains: 205.19 miles sanitary; 61.38 miles storm; 39.93 miles combined.

PRINCIPAL TAXPAYERS

As certified at December 31, 2004 for the tax roll applicable to the 2005-06 fiscal year.

Taxable Valuation

1	BRE Southfield	\$120,609,560	3.5%
2	Forbes – Cohen/Nemer Associates	53,349,570	1.5
3	New Par/Verizon Wireless	48,952,260	1.4
4	TTERTT Associates, LLC	43,721,450	1.2
5	Detroit Edison	37,565,150	1.1
6	Liberty Property	35,306,840	1.0
7	SBC Communications	34,227,370	1.0
8	Allied Phase One Venture	31,791,520	0.9
9	Hartman & Tyner Incorporated	30,984,500	0.9
10	American Center	27,664,150	0.8
11	Ramco-Gershenson Incorporated	25,749,870	0.7
12	Nippondenso Sales Incorporated	24,300,570	0.7
13	Teachers Michigan Properties	20,545,810	0.6
14	Wilmington Trust Company	19,404,120	0.6
15	Rosin & Rosin	17,359,590	0.5
16	GP Northland	17,156,260	0.5
17	SLT Southfield	16,841,360	0.5
18	Franklin Park Towers	16,381,960	0.5
19	Sutton Place Associates	15,291,470	0.4
20	Star Southfield Center, LLC	13,806,340	0.4
SUB-TOTAL		651,009,720	18.7
All Other Taxpayers		2,831,074,432	81.3
TOTAL ASSESSED VALUE		<u>\$3,482,084,152</u>	100.0%

Economic and Statistical History (cont.)

STREET FACILITIES

Streets: Total 245.73 miles, with 64.71 miles on the Major Street System and 180.02 miles on the Local Street System. Less than 5 miles remain unpaved.
Alleys: Total under five miles.
Sidewalks: Total 201.29 miles including ten miles of paved bike paths.
Street Lights: Total 1,720.

PUBLIC SAFETY

Public Safety is organized for efficiency into three areas of overall administration and communications (PSA), police and fire.

Vehicles	P.S.A.	Police	1st Line/ Fire Reserve
Cars	2	96	7/0
Trucks	0	1	7/4
Life Support	0	0	4/5
Vans, 4WD, etc.	0	20	9/0
Total	2	117	27/9

Facilities: One main Public Safety Building housing Police, Civilian Support Services and Emergency Management, as well as a 36-cell detention facility operated by the Oakland County Sheriff's Department.

POLICE PROTECTION

Please note that the Southfield Police Department now uses the new Michigan Incident Crime Reporting System (MICR).

Under this system Group A Offenses: (serious incidents, which carry maximum penalty under the law) has replaced what used to be known as Part I crimes. Group B offenses contain the less serious, yet still arrestable crimes which used to be known as Part II crimes.

Group A Offenses: (murder, manslaughter, rape, robbery, aggravated assault, breaking and entering, larceny, auto theft, arson, kidnapping/abduction, forgery, fraud, embezzlement, receiving and concealing stolen property, vandalism, weapons violations, commercialized sex, drug law violations, gambling).

Group B Offenses: (fraud, non-forcible sexual, non-violent family, drunk driving, liquor law violations, obstruction, disorderly conduct, arrestable traffic).

Law Violations: Group A Offenses - 8,674
 Group B Offenses - 3,821

Traffic Violations: 23,568

Incidents Handled: 72,928

Economic and Statistical History (cont.)

FIRE PROTECTION

Alarms Answered: 11,110 runs
Medical Emergency: 9,549 runs

PARKS & RECREATION

The Parks and Recreation Department is responsible for 780 acres of park land and open space at 33 sites within the City. The recent acquisition of the Carpenter Lake and Berberian properties means that of the 780 acres, over 333 acres are dedicated nature preserves. The Department offers hundreds of recreation programs at facilities which include 2 nine-hole golf courses, a lighted driving range, a 50-meter outdoor swimming pool, a senior adult center, an indoor athletic field house, an indoor ice arena and a neighborhood recreation center. There are numerous ball fields, tennis and handball courts, picnic areas and shelters, soccer fields, play lots and sand volleyball courts located throughout the City for residents' enjoyment.

The Department is also responsible for a number of historical properties including the Burgh Historical Park, the Miller Barn at Inglenook Barn and the Mary Thompson Farmhouse. The Burgh Historical Park includes an outdoor gazebo and six historic buildings which bustle with activities, including concerts, weddings, and a variety of other family and community events. The Burgh's 1854 Methodist Church is home to the City's SRO Productions civic theater company, now in its fourteenth season. The Mary Thompson Farmhouse was restored as a museum and is home to the Southfield Historical Society. The Senior Gardens at the Mary Thompson Farm provide plots to nearly 100 enthusiastic gardeners who offer tours to school and scouting groups. The Senior Gardens have been recognized as one of the best community gardens in the nation by the John Deere Company.

The Department offers many programs for disabled athletes including the Miracle League, a baseball program for disabled youth, and the Jr. Thunderbirds Wheelchair Basketball Program. Golf programs have been expanded to include youth programs such as Michigan First Tee and Midnight Golf, along with the PGA sponsored GAIN program for disabled golfers.

In addition to day-to-day programming for all Southfield residents, the Parks and Recreation Department is also focused when it comes to special events, including the Star Spangled Southfield fireworks event. Quality entertainment is offered year-round with a variety of concert series including the popular free outdoor concerts held throughout the summer at the Burgh Gazebo and Eat to the Beat noontime series at City Centre. The Department has received many national awards for excellence in recreational programming, as well as for beautification and environmental maintenance and programming.

LIBRARY

The municipal library, located at the Southfield Civic Center, is one of Michigan's busiest. More than 2,500 patrons per day utilize the Library's main facility. The Library maintains a book collection in excess of 260,000 volumes, with more than 10,000 video cassettes and DVDs available. The Library also makes available compact discs, audio cassettes, and ebooks. Southfield's reference collection is one of the most comprehensive in Michigan with an internationally linked computer business reference service to assist the community's large business population.

Economic and Statistical History (cont.)

While continuing to provide excellent service to its corporate and residential citizens through traditional library services, the Southfield Public Library takes advantage of the most advanced computer technology to make information available to our residents and businesses. We provide access to the Internet, a worldwide computer network. Through this system our patrons have available information covering such disciplines as business, finance, technology, science, humanities, public affairs, the arts, and general news.

This wealth of computerized information is available on the Library's 150 public work stations as well as at home, business, or school.

The Southfield Public Library provides a full range of programs to meet the needs of residents and businesses. Programs include Preschool Story Time, Opera Series, Super Science Saturdays, Battle of the Books, several literary and poetry series, as well as consumer-oriented information and health topics.

On March 9, 1999, the voters of Southfield approved a millage increase to a new limit of 2.2 mills to construct and operate a new Southfield Public Library. The new facility opened in June, 2003.

City Of Southfield, Michigan

**History of Constitutional Tax Rate Rollback Factors
Required Under Proposal E (The "Headlee" Amendment)
Ratified November 7, 1978**

Fiscal Year Ending June 30	Preceding Year's TAV	-	Losses	X	CPI	=	TAV Ceiling	Actual TAV	-	New TAV	=	Adjusted TAV	Ratio (1)	Rollback Factor (2)
1997	\$ 2,338,972,710	\$	73,187,580	1.028	\$ 2,329,227,114	\$	2,425,365,701	\$ 100,213,910	\$	2,325,151,791	1.0018	0.9938		
1998	2,425,365,701		77,238,690	1.028	2,413,874,567		2,514,270,106	111,665,000		2,402,605,106	1.0047	0.9938		
1999	2,514,270,106		59,865,637	1.027	2,520,673,390		2,707,964,479	167,080,300		2,540,884,179	0.9920	0.9858		
2000	2,707,964,479		124,212,523	1.016	2,625,091,987		2,825,989,180	173,090,804		2,652,898,376	0.9895	0.9754		
2001	2,825,989,180		137,447,971	1.019	2,739,623,492		2,929,875,361	114,894,355		2,814,981,006	0.9732	0.9492		
2002	2,929,875,361		132,984,677	1.032	2,886,391,186		3,078,615,673	176,560,727		2,902,054,946	0.9946	0.9440		
2003	3,078,615,673		116,702,592	1.032	3,056,694,300		3,230,941,830	180,893,047		3,050,048,783	1.0022	0.9440		
2004	3,230,941,830		137,098,147	1.015	3,140,251,338		3,268,025,510	169,450,040		3,098,575,470	1.0135	0.9440		
2005	3,268,025,510		102,696,868	1.023	3,238,131,201		3,386,748,000	197,099,758		3,189,648,242	1.0152	0.9440		
2006	3,386,748,000		113,723,281	1.023	3,348,304,288		3,482,084,152	136,257,076		3,345,827,076	1.0007	0.9440		

Notes:

- (1) Ratio of TAV ceiling to adjusted TAV.
- (2) The rollback factor is intended to provide local taxing units with a tax revenue ceiling, equal to 1978 authorized millage rates times 1978 assessments increased only by the official Consumer Price Index (CPI) index plus new construction. Any excess property tax authority above this ceiling is "rolled back" through application of a millage reduction fraction. The 1978 base millage reduction fraction was 1.000, which becomes the upper limit for future factors. As a compound millage reduction factor, the factor for one year is the product of the rollback factor of the previous year multiplied by the ratio of inflated taxable assessed value (TAV) divided by adjusted TAV of the current year. The inflated TAV for any year is calculated by multiplying the TAV of the previous year by the consumer price index for that year. This is compared to the adjusted TAV or the actual TAV for that year less net new construction (additions minus losses).

City Of Southfield, Michigan

**General Fund Balance Compared To Annual Expenditures
Last Ten Fiscal Years**

Fiscal Year Ending June 30	Undesignated Fund Balance	Annual Expenditures	Balance As Percent Of Expenditures
1997 \$	5,898,453	\$ 46,622,314	12.7
1998	5,824,044	51,212,712	11.4
1999	6,723,665	50,938,783	13.2
2000	7,246,646	52,605,432	13.8
2001	7,316,869	54,206,915	13.5
2002	7,545,390	55,256,370	13.7
2003	3,841,110	58,064,585	06.6
2004	2,972,962	61,147,556	04.9
2005	5,711,531	61,159,478	09.3
2006	5,922,094	61,966,586	09.6

City of Southfield, Michigan

**Authorized Positions (FTE's)
1997-98 / 2005-06**

Department	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06
Accounting	9.00	9.00	9.00	9.00	9.00	9.00	8.40	8.40	8.40
Administration	5.00	5.00	5.00	5.00	5.00	5.00	4.00	4.00	2.00
Assessing	11.50	11.50	11.50	11.50	11.50	11.50	11.15	11.15	10.65
Building	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00
Cable TV	7.00	7.00	7.00	8.00	8.00	8.00	7.00	7.00	7.00
Central Services	4.00	4.00	4.00	4.00	4.00	6.00	6.00	6.00	7.00
City Clerk	9.50	9.50	9.50	11.00	11.00	11.00	11.00	11.00	11.00
City Council	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Civilian Operations/Commun. ⁽¹⁾	57.89	49.89	25.00	25.00	25.00	25.00	25.00	25.00	24.00
Community Develop. Admin. ⁽²⁾	13.50	13.50	12.50	16.50	16.50	16.50	14.00	15.00	13.00
Community Relations	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
District Court	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	39.00
Emergency Management ⁽³⁾	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00
Engineering	10.00	9.00	10.00	10.00	10.00	11.00	10.00	11.00	11.00
Facilities Maintenance	36.76	36.76	40.26	39.26	39.26	39.26	44.26	44.26	44.26
Financial Services/OMB	4.00	4.00	5.00	5.00	5.00	3.00	3.00	3.00	3.00
Fire ⁽¹⁾	106.00	110.00	113.00	114.00	114.00	114.00	114.00	114.00	113.00
Human Resources ⁽⁴⁾⁽⁵⁾	9.00	9.00	9.50	17.75	17.75	17.75	18.75	11.00	9.00
Human Services	7.00	7.00	6.50	6.50	6.50	5.50	5.50	5.50	4.50
Labor Relations	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Legal	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00
Library	39.00	39.00	39.00	40.50	40.50	40.50	64.50	64.50	64.50
Mayor	2.00	2.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Motor Pool	15.00	15.00	15.00	14.00	14.00	14.00	14.00	14.00	15.00
Parks And Recreation	112.27	112.27	112.27	112.27	112.27	112.27	110.27	101.80	93.80
Planning	6.00	8.00	8.00	8.00	8.00	7.00	7.00	7.00	7.00
Police ⁽¹⁾⁽⁶⁾	157.00	161.00	181.89	185.89	186.89	186.89	186.89	186.89	182.89
Public Works Admin.	7.50	8.50	8.50	8.50	8.50	7.50	7.00	7.00	7.00
Purchasing	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Retirement Administration ⁽⁷⁾	-	-	-	-	-	-	1.00	1.00	-
Streets And Highways	29.62	28.62	28.62	31.62	31.62	31.62	31.62	31.62	36.62
Support Services	-	-	-	-	-	-	-	-	-
Technology Services ⁽⁸⁾	10.50	10.50	10.50	10.50	10.50	11.50	11.50	11.50	11.50
Transportation	5.76	5.76	5.76	5.76	5.76	5.76	4.76	4.76	4.76
Treasurer	9.00	9.00	10.00	10.00	10.00	10.00	8.60	8.60	8.60
Water And Sewer	<u>28.08</u>	<u>29.08</u>	<u>29.08</u>	<u>31.08</u>	<u>32.08</u>	<u>32.08</u>	<u>31.08</u>	<u>31.08</u>	<u>31.08</u>
Totals	<u>799.88</u>	<u>801.88</u>	<u>806.88</u>	<u>832.13</u>	<u>834.13</u>	<u>833.13</u>	<u>851.78</u>	<u>837.56</u>	<u>820.06</u>

Notes:

- ⁽¹⁾ Effective July 1, 1999, department title was changed from Civilian Support Services to Civilian Operations/Communications and personnel/divisions decentralized to Police and Fire Departments' budgets.
- ⁽²⁾ Four contractual grants administration positions were recognized as career positions in 2000-01.
- ⁽³⁾ New Department in 2000-01. Function was previously a part of the Police Department.
- ⁽⁴⁾ Effective July 1, 1998, department title was changed from Personnel to Human Resources.
- ⁽⁵⁾ Eight contractual daycare positions were recognized as career positions in 2000-01. In 2004-05, those eight positions were eliminated upon the closing of the daycare.
- ⁽⁶⁾ Three grants funded police officer positions were recognized as permanent career positions in 2000-01.
- ⁽⁷⁾ New Department in 2003-04 and eliminated in 2005-06.
- ⁽⁸⁾ Effective July 1, 2003, department title was changed from Information Services to Technology Services.

City Of Southfield, Michigan

Insurance Coverage June 30, 2006

POLICY/CARRIER/COVERAGE (1)

- I. **General Liability Coverage** - Michigan Municipal Risk Management Authority (MMRMA)
 - A. \$15 million each occurrence bodily injury, personal injury, property damage, public officials and law enforcement liability, and statutory Michigan "no fault" on owned automobiles.
 - B. The MMRMA program is approved and regulated by the Michigan Insurance Bureau. It was established in 1982 under Michigan Public Act 138.

- II. **Property & Other** - Michigan Municipal Risk Management Authority, and various other carriers
 - A. Property: \$132.7 million virtual all-risk protection on real and personal property. Coverage for public employee faithful performance, valuable papers/records, and extra expense/loss of earnings also are provided.
 - B. Other: Various specific purpose bonds, special events policies, fiduciary liability, and other coverage are provided to meet the operating needs of the City while protecting its financial interests.

- III. **Workers' Compensation** - Great American Insurance Companies (2)
 - A. Michigan statutory benefits.
 - B. \$100,000 employer's liability protection.

Notes:

- (1) Coverage description is general and subject to change. No attempt has been made to reflect deductible provisions or overlapping coverage or interrelationships. Only the formal policies can do this. The insurance coverages outlined are part of an overall risk management strategy outlined on page 88.
- (2) Great American Insurance Company's financial strength profile is rated A (excellent) by Best's Insurance Reports, and the origin of the company dates back to the year 1872.

City of Southfield, Michigan

**Management Group (Exempt) Personnel
Salary Schedule July, 2005**

<p align="center">Grade E - U, \$94,164 - \$127,400 Deputy City Administrator/Fiscal Services Director</p>
<p align="center">Grade E - T, \$88,272 - \$119,429</p>
<p align="center">Grade E - S, \$84,274 - \$114,022 Director of Public Works Director of Planning & Economic Development Police Chief</p>
<p align="center">Grade E - R, \$78,583 - \$106,318 Deputy Director - Public Works/Operations Director of Community Relations Director of Parks and Recreation Director of Staff Services/Human Resources Fire Chief</p>
<p align="center">Grade E - Q, \$74,654 - \$101,004 City Librarian City Controller/Deputy City Treasurer Director of Technology Services</p>
<p align="center">Grade E - P, \$71,255 - \$96,404 Attorney IV City Assessor City Engineer Human Services Director</p>
<p align="center">Grade E - O, \$64,939 - \$87,857</p>
<p align="center">Grade E - N, \$57,944 - \$78,396 Attorney III Deputy City Assessor Deputy City Clerk Deputy City Librarian Deputy City Planner Deputy City Treasurer Labor Relations Director Purchasing Agent</p>
<p align="center">Grade E - M, \$54,619 - \$73,898 Attorney II</p>
<p align="center">Grade E - L, \$50,408 - \$68,199 Attorney I</p>

City of Southfield, Michigan

**Federal Awards
Supplemental Information
June 30, 2006**

City of Southfield, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Southfield, Michigan

We have audited the financial statements that collectively comprise the City of Southfield, Michigan's basic financial statements for the year ended June 30, 2006 and have issued our report thereon dated January 4, 2008. Those basic financial statements are the responsibility of the management of the City of Southfield, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Southfield, Michigan's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

January 4, 2008

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Southfield, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southfield, Michigan as of and for the year ended June 30, 2006 and have issued our report thereon dated January 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Southfield, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Southfield, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-9.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2006-1, 2006-2, 2006-4, 2006-5, 2006-7, 2006-8, and 2006-9 to be material weaknesses.

In addition, we noted certain matters that we have reported to the management of the City of Southfield, Michigan in a separate letter dated January 4, 2008.

To the Honorable Mayor and
Members of the City Council
City of Southfield, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Southfield, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, officials of the State of Michigan, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 4, 2008

Report on Compliance with Requirements Applicable to Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Southfield, Michigan

Compliance

We have audited the compliance of the City of Southfield, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of the City of Southfield, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Southfield, Michigan's management. Our responsibility is to express an opinion on the City of Southfield, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Southfield, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Southfield, Michigan's compliance with those requirements.

In our opinion, the City of Southfield, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures disclosed an instance of noncompliance with the requirements that is required to be reported in accordance with OMB Circular A-133, which is described in the accompanying schedule of findings and questioned costs as item 2006-10.

To the Honorable Mayor and
Members of the City Council
City of Southfield, Michigan

Internal Control Over Compliance

The management of the City of Southfield, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Southfield, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1, 2006-2, and 2006-6.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider items 2006-1 and 2006-2 to be material weaknesses.

This report is intended solely for the information and use of the City Council and management, officials of the State of Michigan, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

January 4, 2008

City of Southfield, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Agency/Pass-through Agency Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:		
Community Development Block Grants -	14.218	\$ 212,754
SHIP (Southfield Home Improvement Program) and other income:		
2002 Entitlement - B-02-MC-260012	14.218	11,524
2003 Entitlement - B-03-MC-260012	14.218	728
2004 Entitlement - B-04-MC-260012	14.218	5,773
2005 Entitlement - B-04-MC-260012	14.218	123,327
2006 Entitlement - B-04-MC-260012	14.218	518,880
Section 8 Housing Choice Vouchers Program	14.871	1,033,577
Total U.S. Department of Housing and Urban Development		1,906,563
U.S. Department of Health and Human Services - Michigan Works - Passed through Oakland County - Private Industrial Council - Temporary Assistance to Needy Families:		
2005	93.558	117,832
2006	93.558	221,791
Total U.S. Department of Health and Human Services		339,623
U.S. Department of Labor - Michigan Works - Passed through Oakland County - Private Industrial Council:		
Reed Act	17.000	46,696
Employment Services	17.207	311,969
Welfare-to-Work Grants to States and Localities:		
2005	17.253	94,494
2006	17.253	75,642
Workforce Investment Act - Adult Program	17.258 (I)	496,061
Workforce Investment Act - Youth Activities	17.259 (I)	63,180
Workforce Investment Act - Dislocated Workers	17.260 (I)	384,116
Total U.S. Department of Labor		1,472,158
Department of Homeland Security - Passed through Michigan Department of State Police:		
Emergency Management Performance Grant	97.042	50,577
State Domestic Preparedness Equipment Support Program	97.004	381,920
Total Federal Emergency Management Agency		432,497
U.S. Department of Justice:		
Direct:		
LLEBG - Bike and Motorcycle Grant #04-LB-BX-0087	16.592	19,614
LLEBG - Bike and Motorcycle Grant #04-LB-BX-00	16.592	34,229
Passed through Michigan Department of Community Health - Byrne Formula Grant	16.579	33,616
Total U.S. Department of Justice		87,459
U.S. Department of Transportation, Federal Highway Administration - Passed through Michigan Department of Transportation - Highway Planning and Construction 2005	20.205	16,732
U.S. Environmental Protection Agency - Passed through the County of Wayne - Surveys, Studies, Investigations, and Special Purpose Grants	66.606	622,542
Total federal awards		\$ 4,877,574

(I) Denotes the Workforce Investment Act Cluster

City of Southfield, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Southfield, Michigan (the "City") and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	Subrecipient	Amount Provided to Subrecipients
Community Development Block Grant	HAVEN	\$ 13,000
	Accounting Aid Society	2,500
	Common Ground Sanctuary	<u>2,070</u>
	Total subrecipient awards	<u>\$ 17,570</u>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant
14.871	Section 8 Housing Choice Voucher Program
66.606	Wet Weather Program
97.004	State Domestic Preparedness Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings

Reference Number	Findings
2006-I	<p>Lack of Timely Bank Reconciliations</p> <p>Finding Type - Reportable condition/Material weakness</p> <p>Criteria - Bank reconciliations should be prepared on a timely basis within the City's framework of its internal control structure.</p> <p>Condition - Bank reconciliations were not prepared timely for all of the City's accounts.</p> <p>Context - The lack of preparation of timely bank reconciliations resulted in material unknown differences in year-end balances between the general ledger and the statements of the bank.</p> <p>Effect - The City could not readily support the general ledger cash balance at year end.</p> <p>Cause - The City does not have a process in place to ensure timely reconciliations are prepared.</p> <p>Recommendation - We encourage the City to review current procedures and implement the changes necessary to ensure that timely bank reconciliations are prepared.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review its bank reconciliation process and establish controls to ensure that timely reconciliations are prepared. The bank accounts have now been materially reconciled for the year ended June 30, 2006.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-2	<p>Segregation of Duties</p> <p>Finding Type - Reportable condition/Material weakness</p> <p>Criteria - Adequate segregation of duties should be a main component within the City's framework of its internal control structure.</p> <p>Condition - The City does not have adequate segregation of duties. One individual was responsible for preparing bank reconciliations, preparing journal entries, reconciling the cash drawers, preparing the bank deposit, and had the ability to take the deposit to the bank and initiate wire transfers.</p> <p>Context - The lack of adequate segregation of duties could result in misappropriation of assets and/or fraudulent financial reporting.</p> <p>Effect - While misappropriation of assets and fraudulent financial reporting were not found during the City's audit, there is potential risk when there is inadequate segregation of duties.</p> <p>Cause - The City does not have adequate segregation of duties relating to the authorization, handling, and recording of cash transactions.</p> <p>Recommendation - We encourage the City to review current procedures and implement the changes necessary to ensure adequate segregation of duties within the cash cycle. The City should consider separating the safekeeping of cash from the financial recording of cash.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review its process and establish controls to ensure adequate segregation of duties within the cash cycle.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-3	<p>Special Assessments</p> <p>Finding Type - Reportable condition</p> <p>Criteria - Special assessments should be assessed equal to the total project costs.</p> <p>Condition - The City has a portion of special assessment dollars that may need to be refunded.</p> <p>Context - The City may have overassessed its special assessments.</p> <p>Effect - The City has a portion of special assessment dollars that may need to be refunded.</p> <p>Cause - The total amount assessed by the City for special assessments appears to be in excess of the total project costs, which could result in the need for refunds.</p> <p>Recommendation - We encourage the City to review current procedures and implement the changes necessary to ensure special assessments are not assessed in excess of project costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review its process and establish controls to ensure adequate assessing of special assessments.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-4	<p>Accounting for Life Support Fees</p> <p>Finding Type - Reportable condition/Material weakness</p> <p>Criteria - Life support revenue and deposits should be reported and reconciled throughout the year.</p> <p>Condition - The City did not account for or reconcile life support fees revenue or deposits during the year.</p> <p>Context - The lack of accounting for and reconciling of revenue and deposit accounts could result in an error on the financial statements.</p> <p>Effect - The financial records are not properly stated throughout the year.</p> <p>Cause - The City did not account for or reconcile the life support fees revenue or deposit accounts during the year.</p> <p>Recommendation - We encourage the City to account for and reconcile revenue and deposit accounts during the year.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review its process and establish controls to ensure proper accounting.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-5	<p>Accounting for Tax Collections</p> <p>Finding Type - Reportable condition/Material weakness</p> <p>Criteria - The City is responsible for reconciling cash amounts as they come into the City's accounts and are held in trust for the other taxing units until disbursed. The City should incorporate the use of the City's general ledger software system for all dollars collected. Establishing a separate fiduciary account and setting these entries up as recurring in the City's general ledger system will help to promote accuracy and timeliness of financial data recorded in the general ledger throughout the year.</p> <p>Condition - The City did not account for property taxes collected but held in trust for other taxing units during the year on the City's general ledger software.</p> <p>Context - The lack of accounting for these dollars on the general ledger could result in an error on the financial statements.</p> <p>Effect - The financial records are not properly stated throughout the year.</p> <p>Cause - The City did not account for property taxes collected but held in trust for other taxing units during the year on the City's general ledger software.</p> <p>Recommendation - We encourage the City to account for and reconcile property taxes collected but held in trust for other taxing units during the year on the City's general ledger software.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review its process and establish controls to ensure proper accounting.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-6	<p>Approval and Review of Journal Entries</p> <p>Finding Type - Reportable condition</p> <p>Criteria - Journal entries should be approved and reviewed.</p> <p>Condition - Journal entries are not approved or reviewed.</p> <p>Context - The lack of approval and review of journal entries could result in fraudulent financial reporting or misappropriation of assets.</p> <p>Effect - There could be a potential risk that the financial statements are misstated.</p> <p>Cause - There was no approval or review of the journal entries that were posted throughout the year.</p> <p>Recommendation - We encourage the City to review its process and controls to consider the approval and review of journal entries.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review its process and establish controls for journal entries posted.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-7	<p>State Reporting Deadline</p> <p>Finding Type -Reportable condition/Material weakness</p> <p>Criteria - Account</p> <p>Condition - The City's basic financial statements were not completed in a timely manner and, therefore, the audit deadline was not met.</p> <p>Context - The unseemliness of the preparation of the City's basic financial statements could result in a loss of state revenue-sharing money.</p> <p>Effect - The City's basic financial statements were not completed in a timely manner.</p> <p>Cause - Financial statement audit findings noted above as well as the understaffing in some City departments contributed to the delay.</p> <p>Recommendation - We encourage the City to review its process and controls over financial reporting and to prioritize the workload of the staff that are key to the financial statement audit process.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review its process and establish controls over its financial reporting.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-8	<p>Capital Asset Reconciliation</p> <p>Finding Type - Reportable condition/Material weakness</p> <p>Criteria - Capital assets should be reconciled from the detail records to the general ledger throughout the year.</p> <p>Condition - The City's capital asset detail did not reconcile to the general ledger during the year.</p> <p>Context - The lack of accounting for and reconciling of the capital asset accounts could result in an error on the financial statements.</p> <p>Effect - The financial records are not properly stated throughout the year.</p> <p>Cause - The City did not account for or reconcile the capital asset detail to the general ledger during the year.</p> <p>Recommendation - We encourage the City to reconcile the capital asset detail to the general ledger throughout the year.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City has fully reconciled the capital asset detail to the general ledger and will continue the reconciliation process throughout the year. The City also plans to conduct a full inventory of all capital asset detail for the audit year ending June 30, 2008.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-9	<p>Miscellaneous Deposits</p> <p>Finding Type - Reportable condition/Material weakness</p> <p>Criteria - The deposits subledger should be reconciled to the general ledger throughout the year.</p> <p>Condition - The City's miscellaneous deposits did not reconcile to the general ledger during the year.</p> <p>Context - The lack of accounting for and reconciling of the miscellaneous deposits could result in an error on the financial statements.</p> <p>Effect - The financial records are not properly stated throughout the year.</p> <p>Cause - The City did not account for or reconcile the miscellaneous deposits detail to the general ledger during the year.</p> <p>Recommendation - We encourage the City to reconcile the miscellaneous deposits detail to the general ledger throughout the year.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City is in the process of fully reconciling all deposit subledgers to the general ledger to ensure all deposit amounts are properly reflected on the general ledger during the year.</p>

City of Southfield, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2006

Section III - Federal Program Audit Findings

Findings 2006-1, 2006-2 and 2006-6 under Financial Statement Audit Findings are also considered to be Federal Program Audit Findings given their overarching nature.

Reference Number	Findings
2006-10	<p>Program Name - U.S. Environmental Protection Agency, Surveys, Studies, Investigations and Special Purpose Grants - CFDA #66.606</p> <p>Pass-through Entity - Wayne County</p> <p>Finding Type - Noncompliance</p> <p>Criteria - The grant agreement dictates that the City must submit quarterly status reports to the County of Wayne.</p> <p>Condition - The City did not submit any status reports to the County during the year.</p> <p>Questioned Costs - None</p> <p>Context - By not submitting quarterly status reports to Wayne County, the Wet Weather Program did not comply with the grant agreement.</p> <p>Cause and Effect - The City did not submit any status reports to the County of Wayne during the year and, in effect, did not fully comply with the grant agreement.</p> <p>Recommendation - We recommend that the Wet Weather Program submit quarterly status reports to Wayne County, as required in the grant agreement.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will submit quarterly status reports to Wayne County as required by the grant agreement.</p>

City of Southfield, Michigan

Summary Schedule of Prior Audit Findings

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
2005	05-01	The City did not maintain documentation of third-party income verification for two Section 8 Housing Program participants.	14.871	None	Corrected. The City has properly maintained documentation of third-party income verification for Section 8 Housing Program participants.
2005	05-02	The City did not prepare and submit a required financial report before the due date.	14.871	None	Corrected. The previously required financial report is no longer required to be filed.



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January 4, 2008

To the Honorable Mayor and
Members of the City Council
City of Southfield
26000 Evergreen Road
Southfield, MI 48076

Dear Mayor and Council Members:

We have recently completed the audit of the financial statements of City of Southfield for the year ended June 30, 2006. As a result of our audit and in addition to our financial report, we have the following comments for the mayor and City Council's review.

Financial Results

For the year ended June 30, 2006, net assets in the General Fund decreased by approximately \$.6 million. While the General Fund realized a decrease to its fund balance in the current year, the General Fund revenues and expenditures both performed better than the anticipated budgeted amounts, which projected that the General Fund would decrease by \$2.4 million. The City's General Fund results are currently in line with the City's fund balance stabilization plan that was set up to properly address the ongoing economic challenges that the City will continue to face within the state of Michigan. This includes continual decline in state-shared revenues, anticipated slower growth in property values, and continual challenges with funding the increasing costs associated with current health care, properly funding the annual required pension contribution and future healthcare for the City's employees and retirees, as well as continuing to provide adequate services and City enhancements for its residents.

Condition of Accounting Records and Controls

We would like to commend the City and its staff for the large time commitment and the dedication that they put forth in order to ensure that the City received an unqualified opinion and that the financial statement amounts and disclosures were properly stated and supported. During this time, the City's departments made great strides in improving their fixed asset records, sharing information among departments, reconciling numerous general ledger accounts, and improving other processes. This significant effort resulted in prior period adjustments to the previously reported June 30, 2005 net assets and fund balances. In addition, the City is committed to, and is in the process of, continuing to enhance its internal controls and reconciliation processes during the current year to address the items we noted during the audit process.

In planning and performing our audit of the financial statements of the City of Southfield, Michigan for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses:

Bank Reconciliations

During the year, monthly bank reconciliations were prepared for all the bank accounts maintained by the City. However, any differences between the "balance per general ledger" on the bank reconciliation and the actual general ledger balance were not identified and resolved in a timely manner. As a result, at year end and for several months during the year, the general ledger balance did not reconcile to the balance per the reconciliation by material amounts. In order to maintain proper control over the cash accounts, the monthly bank reconciliation process should include identifying and following up on differences between the bank reconciliation balance and the general ledger balance. Any adjustments identified should be posted on a monthly basis. To further enhance this process, the City should have the preparer and the reviewer sign off and date the bank reconciliations when completed to document the timeliness of the preparation and review.

In addition, it was noted that certain lock box accounts and the portion of tax dollars that are collected and held in trust for other units, such as the schools and county, are not recorded on the City's general ledger system during the year. Additionally, property tax collection revenues were not recorded on the general ledger. We recommend that all cash accounts and revenue accounts be reflected on the general ledger and reconciled on a monthly basis to ensure accuracy throughout the year. The process of reconciling property tax collections to the general ledger and preparing the bank reconciliations may be an easier task for the City if the tax collection process incorporates the use of the City's general ledger software system for all dollars collected. Establishing a separate fiduciary account and setting these entries up as recurring in the City's general ledger system will help to promote accuracy and timeliness of financial data recorded in the general ledger throughout the year.

Account and Capital Asset Reconciliations

As noted above, the City invested time during the audit process to ensure thorough account reconciliations were performed for both capital asset detail as well as a variety of general ledger accounts that had not been fully supported in the past. At the end of the process, the City's significant general ledger accounts were properly supported and were in compliance with required accounting standards. This reconciliation process resulted in prior period adjustments to the City's financial statements as well as numerous journal entries throughout the audit process. We recommend that the City continue to reconcile these accounts and maintain their accuracy throughout the year.

We also suggest that the City put in place a reconciliation policy related to the required manual monthly adjusting journal entries. This policy would include a review, approval, and sign off function of the entries posted and procedures to ensure the accuracy of the City's general ledger throughout the year.

Miscellaneous Deposits

The City appears to have excess dollars within the miscellaneous deposits general ledger account. The supporting documentation would indicate that fewer dollars are actually due to others than what is reflected in the liability account within the general ledger account. Similar to the comments above, we also recommend that the City reconcile all supporting deposit information to the general ledgers accounts throughout the year to ensure accuracy.

Segregation of Duties

Strong internal controls attempt to segregate the three duties associated with custody, authorization, and recordkeeping for any transaction. Incompatible functions could place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, we do not believe the City has an adequate segregation of accounting duties because there is an individual who is able to perform the three duties noted above. We suggest that the City attempt to segregate the duties and believe that these enhanced procedures could help to identify errors in a timely manner and improve the overall controls and safeguarding of assets at the City.

Life Support Revenue

The City did not account for or reconcile life support fees revenue during the year. Instead, one lump-sum entry was made as of the last day of the year. As a result, the City's financial records were not properly stated during the audit year. It is our understanding that this situation occurred due to a vacant position within the accounting staff. The City corrected this and during the ensuing fiscal year, this account was reconciled on a monthly basis.

Additional Observations

We also noted the following reportable conditions that in our judgment are not considered to be material weaknesses:

- Currently, the City has a special assessment policy whereby property owners are not assessed until all project construction costs are paid initially by the City. The City is then reimbursed through the special assessment to property owners. Prior to this policy being enacted, the City's special assessments were billed before the final project costs were complete. The City restructured its reconciliation policy and invested time to reconcile these previous type of special assessment funds to ensure no property owner was over assessed and to ensure the City is in compliance with the state law, which requires that special assessments assessed to property owners be limited to the needs of the project plus a small additional amount for administration purposes. The City is currently in the process of reconciling any remaining dollars related to this previous type of special assessment funds.
- The City's financial statement audit was not completed within the time frame required by the State of Michigan. The City noted that there were certain conditions which were outside the City's control that helped to contribute to the late completion. However, the City made great strides in reconciling accounts and adjusting balances as needed during the current audit year. However, the City's audit for the year ended June 30, 2007 is now also late. With the time invested in the previous two audit years, the City fully anticipates to be back on track and to file the June 30, 2008 audit in a timely manner.

We also noted the following items during our audit that the City may want to consider in order to enhance its internal control system:

- The payroll department has the ability to prepare payroll, change pay rates, and add and delete employees. Though there are controls during the check signature process, the City should consider establishing a policy that involves managerial review and/or segregation of duties regarding pay rate changes and employee additions and deletions.
- The City should ensure that the pension system reserves are adequately separated between City reserve, employee reserve, pension reserve, and healthcare reserves throughout the year, or at least at year end.

- The City is also planning to focus more on ensuring that all interfund transfers are properly analyzed to verify the proper classification of dollars being transferred. Some items may be more properly classified as expense reimbursements versus transfers.
- It was noted that certain grant funds have a fund balance in the current year. Typically reimbursement-type grants would not result in fund balance. The City is in the process of identifying the origin of the funds on hand to determine if these dollars are available to the specific grant fund and/or the General Fund and what these dollars can be used for based on the original source of the funds. The fund balance in the grant funds has been restricted for use until the reconciliation is complete and the dollars properly freed up for their intended use.

Other Items

Postemployment Benefits

The City has been proactive in beginning to fund its future expected postemployment healthcare benefits. The City has been contributing to a Retiree Healthcare Benefit Trust and obtaining an actuarial valuation on the accrued liability to the fund since 2001. As of June 30, 2009, the Governmental Accounting Standards Board Statement No. 45 will require the City to disclose the total liability for retiree healthcare. In addition, the actuary will determine an annual required contribution that is necessary to ensure the health of the fund. The City's progress in funding this liability will be disclosed in the financial statements and any annual shortfalls in funding will be shown as an accrued liability to be disclosed on the government-wide financial statements.

Infrastructure Capitalization Requirement

Since GASB 34 full accrual statements were implemented, the City has been required to capitalize infrastructure additions. The City has been complying with this requirement on a "go forward" basis. However, for the year ending June 30, 2007, the City will be required to "look back" to the year beginning July 1, 1981 and capitalize all infrastructure added from 1981 to the first year of GASB 34 implementation, or more than 20 years worth of additions. In order to expedite the audit process for 2007, we recommend the City prioritize this project.

New Auditing Standards

The American Institute of Certified Public Accountants Audit Standards Board recently issued nine new Statements on Auditing Standards (SAS). The new auditing standards increase the level of documentation that is required to be obtained during our audits and modify the way we conduct our work. The new standards take effect over the next two years. The following is a summary of the new standards:

- **Statement on Auditing Standards 103 - Audit Documentation** - This standard is effective for the year ended June 30, 2007 and clarifies and increases the requirements that auditors must follow in obtaining, managing, and retaining documentation that supports the audit opinion. It redefines the form, content, and extent of audit documentation necessary to support the audit work. It also redefined the method used to determine the dating of the auditor's report. The substantive implication of this new standard to the City is that we will be more specific in our requests for information and documentation.
- **Statement on Auditing Standards 112 - Communication of Internal Control Related Matters Noted in an Audit** - This standard is effective for the year ending June 30, 2007 and establishes requirements for the auditor's communication responsibility to the City Council concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The new audit standard lowers the threshold that is used to determine if a control deficiency must be reported to the Council. The substantive implication of this new standard is that it likely that we will be required to officially report on more internal control-related items than in the past.
- **Statements on Auditing Standards 104-111 - The Risk Assessment Standards** - These standards are effective for the year ending June 30, 2008 and will substantially affect the auditing process by enhancing the auditor's application of audit risk assessment. The standards require auditors to perform the following:
 1. Obtain a more in-depth understanding of the City and its internal control environment to identify the risks of material misstatement in the financial statements and what the City is doing to mitigate them
 2. Perform a more rigorous assessment of the risks of material misstatement of the financial statements based on that understanding
 3. Improve the linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks

At this point, the specific impact of these standards on city audits is in the process of being evaluated and we will continue to keep you apprised of the status.

Legislative Items

Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services. The service tax was estimated to raise approximately \$700 million per year. However, the service tax was repealed on December 1, 2007, the same day it was to go into effect, and was replaced by a Michigan business tax surcharge that is estimated to raise the same \$700 million in revenue per year. This tax surcharge will be effective for the year beginning January 1, 2008 for corporations.

With many last minute revisions to the State's budget, it is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of the following matters will also impact revenue sharing;

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million), but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The potential impact is that as counties come back into the revenue-sharing formula, if the total statutory revenue-sharing pot does not grow accordingly, this will reduce the amount available for cities by about one-half.
- **Statutory Revenue-sharing Formula Expired in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure, which began January 1, 2008, are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict.

To the Honorable Mayor and
Members of the City Council
City of Southfield,

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January 4, 2008

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization), with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007-2008 will more than likely be tied to fiscal year 2006-2007 funding levels.

The current statutory formula expired in September 2007, but has been temporarily extended. It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007-2008.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City of Southfield has approximately \$2,100,000 at risk in its General Fund budget based on current funding levels.

New Michigan Business Tax

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expired December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT, as well as an additional approximate \$700 million to be generated by the newly added tax surcharge within the MBT. The MBT intended to simplify the old SBT; however, the MBT is a very lengthy and complicated new law. The new MBT consists of three taxes - a modified gross receipts tax, a business income tax, and a tax surcharge.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the six SET mills and the 18 school operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

To the Honorable Mayor and
Members of the City Council
City of Southfield,

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January 4, 2008

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, and property classifications) that are the most directly impacted by the new MBT. We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

New Cable Franchise Legislation

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act" which provides a statewide framework for franchising agreements instead of individual community agreements. The Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

Currently, the City still only has one main cable provider and, therefore, the City's current franchise fee revenue under the new agreement is still comparable to the payments the City was previously receiving under the old agreement. However, as other telecom providers that are currently paying the City for right of way fees under the Metro Act (such as AT&T) begin to offer cable television, they will be able to reduce the franchise fees paid to the City by those Metro Act dollars. Once this transition begins, the City could see the franchise revenue drop significantly. The City is currently receiving approximately \$796,000 annually in franchise fees and receiving approximately \$238,000 in Metro Act dollars. This new legislation could reduce the franchise fees by \$238,000 (same amount) over time.

To the Honorable Mayor and
Members of the City Council
City of Southfield,

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January 4, 2008

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

Investment Reporting Now Requires Quarterly Versus Annually

Public Act 213 of 2007 has been signed by the governor, which now requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution with maturity date and interest rates.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The filing is due within six months of the City's year end annually and is good for one year thereafter.

We would like to thank the City and its staff for its strong commitment this year in completing the required tasks to ensure the City received an unqualified opinion and to make the commitment to continue to enhance its processes in order to continually strive to operate more efficiently. We would also like to thank the City for the opportunity to serve as your auditors and for the assistance and cooperation that we received from City of Southfield's accounting staff and the rest of the City's personnel during this audit process. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments at your convenience.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



Beth A. Bialy



Kathryn J. Kercorian